

7/8/77

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FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
memo	<p>From Mondale to The President (2 pp.) re: Meeting with West German Ambassador / enclosed in Hutcheson to Mondale and Brzezinski 7/8/77</p> <p><i>Open 7/16/96</i></p>	7/8/77	A

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THE PRESIDENT'S SCHEDULE

Friday - July 8, 1977

7:30 Breakfast with Vice President Walter F.
(60 min.) Mondale, Secretary Cyrus Vance, and Dr. Zbigniew
Brzezinski - The Roosevelt Room.

8:30 Dr. Zbigniew Brzezinski - The Oval Office.

10:00 Mr. Jody Powell - The Oval Office.

10:45 Secretary Michael Blumenthal, Mr. Bert
(60 min.) Lance, Mr. Charles Schultze, Mr. Stuart
Eizenstat, and Mr. Jack Watson - Cabinet Room.

1:30 Interview with Mr. Arthur Gavshon,
(15 min.) Associated Press. (Mr. Jody Powell).
The Oval Office.

2:45 Meeting with the U.S. Commission on Civil
(15 min.) Rights. (Ms. Bunny Mitchell) - Cabinet Room.

3:15 Secretary Ray Marshall - The Oval Office.

3:45 Drop-By Meeting/Secretary Robert Bergland with
(15 min.) Western and Plains States Governors. (Mr. Jack
Watson) - The Roosevelt Room.

THE WHITE HOUSE
WASHINGTON

July 8, 1977

The Vice President
Z. Brzezinski

The attached was returned in
the President's outbox. It is
forwarded to you for your
information.

Rick Hutcheson

Re: Meeting with von Staden

SECRET ATTACHMENT

THE WHITE HOUSE
WASHINGTON

Secret

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<input checked="" type="checkbox"/>	MONDALE
<input type="checkbox"/>	COSTANZA
<input type="checkbox"/>	EIZENSTAT
<input type="checkbox"/>	JORDAN
<input type="checkbox"/>	LIPSHUTZ
<input type="checkbox"/>	MOORE
<input type="checkbox"/>	POWELL
<input type="checkbox"/>	WATSON

<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER

Comments due to
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48 hours; due to
Staff Secretary
next day

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<input type="checkbox"/>	ARAGON
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<input type="checkbox"/>	CARP
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<input type="checkbox"/>	B. RAINWATER
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	SCHNEIDERS
<input type="checkbox"/>	SCHULTZE
<input type="checkbox"/>	SIEGEL
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<input type="checkbox"/>	VOORDE

THE PRESIDENT HAS SEEN.

OFFICE OF THE VICE PRESIDENT
WASHINGTON

July 8, 1977

~~SECRET~~
To file
good
J

MEMORANDUM FOR THE PRESIDENT

FROM: THE VICE PRESIDENT *W*

SUBJECT: Meeting with von Staden

I had a long, private meeting with Ambassador vonStaden to explore the upcoming Schmidt talks. He indicated that the most important, prominent issue was East-West relations between the US and USSR. He said human rights is the central concern. He said that West Germany lives so close to it and has so many issues involved such as Berlin, repatriation of Germans from Eastern Europe and the Soviet Union, that these matters are, in his words, "the central piece of detente". He pointed out that the Germans have had great experience under Brandt and Schmidt in dealing with the Soviet Union and that it is possible that they could be helpful to the President in this relationship. I gathered from that that it is possible that they tend to feel we haven't been consulting closely enough and drawing on their "superior" experience.

He said that it would be valuable if there could be a longer period for substantive meetings between the President and the Chancellor than that presently scheduled; that there should be a tete-a-tete, but we should be mindful that where the Secretary of State is involved, the Foreign Minister should also be included. I believe it would be satisfactory if you had the traditional tete-a-tete with Schmidt for 20-25 minutes before the formal meeting and then a later meeting following the dinner alone with Schmidt. If that is agreeable, I believe that the Germans should be informed of that fairly soon. *ok*

The German leadership does not think that European-USSR detente is sustainable unless there is US-USSR detente as well. He said there is no disagreement on the importance of the human rights issue, but that there may be a question of tactics. He pointed out the distinction between the assertion of values of

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BY *J* NARS DATE *6/7/96*

Memo to the President

- 2 -

July 8, 1977

human rights found in Basket One of the Helsinki accords and the different emphasis on contacts between peoples found in Basket Three, such as permitting families to be reunited, communications, travel and the rest, and he pointed out that the German emphasis has been more in the contact field than in the public assertion of human rights. A distinction he pointed out would be between the public defense of Soviet dissidents on the one hand, versus reuniting families on the other.

He does not think that the nuclear proliferation issue is a central matter at this time. He thinks the discussion and dialogue has now taken on a more acceptable posture.

However, there is a concern about uranium supply; to-wit, will the US, Australia and Canada be too restrictive in the supplying of uranium? He said this matter will undoubtedly be discussed with Trudeau.

THE WHITE HOUSE
WASHINGTON

July 8, 1977

Charlie Schultze -

The attached was returned in
the President's outbox. It is
forwarded to you for your
information.

Rick Hutcheson

Re: Economic & Budgetary Outlook
for Fiscal Years 1979-81

(10:45 a.m.)

THE PRESIDENT HAS SEEN.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

9
1

July 5, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze

SUBJECT: Economic and Budgetary Outlook for
Fiscal Years 1979-81

CEA and OMB have reviewed the economic and budgetary outlook through fiscal 1979 and made a general assessment of prospects through fiscal 1981.

The approach we have used differs materially from that employed in the first budget presentation on May 25. In that earlier presentation:

- . An economic growth path to our unemployment target in 1981 was assumed.
- . A course of Federal expenditures was projected based on current programs, Administration proposals, and OMB recommendations for expenditure restraint.
- . Given the assumed growth of the economy, Federal revenues and the deficit were calculated.

During the May 25 meeting, you asked us to develop estimates of Federal expenditures and revenues based on our best judgment of how the economy would perform between now and 1981. We have done so. I cannot overstress, however, the limits of our ability to forecast economic trends more than a year or so ahead. Beyond that, the historical relationships among the major economic variables -- on which both the formal econometric models and our own informal judgments are based -- become increasingly less reliable as predictors of events.

Alternative Budget Strategies

Both the overall level of economic activity and the size of Federal revenues are jointly determined by two basic sets of factors:

- . the underlying strength of the private economy (influenced by such things as monetary policy and "confidence").
- . budgetary strategy: the level and structure of statutory Federal tax rates and expenditure programs.

(The Federal Government cannot directly determine its total revenues; it sets statutory tax rates, which yield varying amounts of revenues depending upon the level of economic activity.)

We have developed for your consideration three alternative forecasts. All of them involve the same judgments about the underlying strength of the private economy. They differ with respect to budgetary strategy:

- . Strategy I: we balance the budget in fiscal 1981 without regard to whether or not our economic goals are being met.
- . Strategy II: the fiscal dials are set to produce a balanced budget in 1981 only if the economy returns to high employment -- that is, a 4-3/4 percent unemployment rate -- by that time. We have called this a balanced high-employment budget strategy. In this strategy, Federal expenditures and tax rates are set so that, in a high-employment economy, revenues would be equal to expenditures. If the strength of the private economy is sufficiently great, this policy would yield both an actually balanced budget and our target unemployment rate in 1981. If the private economy is weaker, the actual 1981 budget would be in deficit and unemployment would be higher than our target.

This exercise permits us to judge whether the underlying strength of the private economy is likely to be enough to generate both a high-employment economy and a balanced budget simultaneously.

- . Strategy III: fiscal policies are adopted that lead to a high-employment economy in 1981, without regard to whether or not the goal of a balanced budget is achieved. no

In all three strategies, we have imposed a constraint that Federal expenditures in fiscal 1981 not be more than fractionally above 21 percent of GNP.

Economic Assumptions

The assumptions we make about the underlying strength of private economic performance over the next four years reflect what we believe is realistic optimism. Specifically, we assume that:

1. The economy does not go through a recession or a prolonged pause in the rate of expansion between now and 1981. This means at least six and a half years of steady expansion after the trough of the 1974-75 recession.
2. Monetary policy remains relatively expansionary.
3. The inflation rate declines moderately because of our anti-inflationary program.
4. Housing starts continue to move up gradually through 1981.
5. Both consumers and businesses remain relatively confident.
 - . Personal savings as a proportion of after-tax income remain relatively low.
 - . Business investment outlays rise more strongly than formal econometric models would project.

Strategy I: A Balanced Budget in 1981

In their final budget presentation to you on June 23, OMB showed a pattern of outlays for fiscal years 1979-81 that would result from the 1979 agency guidance letters, assuming no further changes in policy through 1981. This expenditure pattern would imply relatively little growth in expenditures between now and 1981, after adjusting for inflation. Such a pattern of outlays, with no tax cuts, would imply very strong fiscal restraints and would result in a very poor economic performance.

In our balanced-budget forecast, we removed some of the increase in fiscal restraint by assuming a moderately faster growth rate of outlays -- beginning in fiscal 1979 and reaching \$13 billion by 1981. The adjusted level of outlays is as follows:

Outlays, Fiscal Years, Billions of Dollars

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Strategy I:	406	463	504	537	573
OMB, June 23:	406	463	499	529	560

Given these fiscal assumptions, our best judgment is that the rate of economic growth would fall significantly below our target beginning in 1979 and continuing through 1980 and 1981 (Table 1). The unemployment rate in 1981 would therefore be only a little less than 6 percent. Inflation would slow to about 4-1/2 percent. In fiscal 1981 the Federal budget would be approximately in balance, despite the low level of economic activity. Indeed, setting the fiscal dials to produce balance leads to the slowdown in economic expansion.

This may seem like a very pessimistic forecast. It results, however, from a course of budgetary policy that implies a severe degree of fiscal restraint -- despite the additional budgetary outlays allowed for. There are various ways in which the degree of fiscal restraint may be characterized:

- . Between fiscal 1978 and fiscal 1981, budget outlays are projected to rise 24 percent, while prices rise about 17 percent. In real terms, the rise in Federal outlays is less than 2 percent per year.
- . With unchanged tax laws, Federal revenues would rise significantly as a proportion of GNP -- because of growth in real income and inflation. Total revenues would rise from 19.6 percent of GNP in fiscal 1977 to 21.4 percent in fiscal 1981. Personal taxes as a proportion of personal income would increase from 10.7 percent in fiscal 1977 to 12.4 percent in fiscal 1981. That is, we would be setting the fiscal policy dials to yield a very large increase in revenues relative to expenditures.
- . Between 1978 and 1981, the actual budget deficit would decline by over \$60 billion -- even though relatively little progress is made in reducing the unemployment rate.

Table 1

Results of Strategy I: (Balanced Budget Strategy)

<u>Economic Results</u> (calendar years)	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Real GNP Growth, fourth quarter to fourth quarter (%)	5.9	4.9	3.2	3.8	3.3
Unemployment Rate (%)	7.0	6.4	6.0	5.9	5.8
Inflation Rate (%)	6.5	6.0	5.7	5.3	4.4
 <u>Budgetary Results</u> (fiscal years)					
Revenues (Billions of \$)	358	401	459	510	573
Expenditures (Billions of \$)	<u>406</u>	<u>463</u>	<u>504</u>	<u>537</u>	<u>573</u>
Surplus (+) or Deficit (-)	-48	-62	-45	-27	-
Total Federal Revenues as a Share of GNP (%)	19.6	19.6	20.3	20.7	21.4
Personal Income Taxes as a Share of Personal Income (%)	10.7	10.9	11.6	12.0	12.4

Strategy II: A Balanced High-Employment Budget in 1981

In the second exercise, the degree of fiscal restraint is reduced by assuming (1) a somewhat higher growth rate of Federal outlays, and (2) tax reductions to keep down the rise in Federal revenues as a proportion of GNP. The assumed pattern of Federal expenditures (shown below) implies a growth of outlays between fiscal years 1978 and 1981 \$23 billion higher than in the June 23 presentation. Because of the more rapid growth in GNP, however, the level of Federal outlays in fiscal 1981 is still about 21 percent of projected GNP in that year.

Fiscal Years, Billions of Dollars

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Strategy II:	406	463	509	547	583
Strategy I:	406	463	504	537	573
OMB, June 23:	406	463	499	529	560

The remainder of the additional fiscal stimulus comes from a series of successive reductions in individual income taxes amounting to \$10 billion each year in 1979, 1980, and 1981 (resulting in a reduction of \$30 billion in the level of individual income taxes by 1981). With these assumed tax cuts, individual income taxes as a share of personal income in fiscal 1981 would be about 11.4 percent -- somewhat above fiscal 1978. (For purposes of this presentation, we assumed that all the cuts were made in individual income taxes. The economic results would not be changed substantially if some tax cuts designed to stimulate business investment were substituted.)

With this additional fiscal stimulus, we would expect considerably better economic performance (Table 2). The projected rate of economic growth would be higher through the 1979-81 period than in the balanced budget forecast, and the rate of unemployment would be around 5 to 5-1/4 percent by 1981. However, we would still fall short of the 4-3/4 percent unemployment rate targeted for 1981.

The high-employment budget would be approximately in balance in fiscal 1981, but since economic growth still falls somewhat short of the amount needed to regain high employment, the actual budget would still be in deficit to the extent of about \$23 billion.

Table 2

Results of Strategy II: (High-Employment Balanced Budget)

<u>Economic Results</u> (calendar years)	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Real GNP Growth, fourth quarter to fourth quarter (%)	5.9	4.9	4.4	4.2	3.3
Unemployment Rate (%)	7.0	6.4	5.8	5.4	5.2
Inflation Rate (%)	6.5	6.0	5.8	5.5	4.7
 <u>Budgetary Results</u> (fiscal years)					
Revenues (Billions of \$)	358	401	458	509	560
Expenditures (Billions of \$)	<u>406</u>	<u>463</u>	<u>509</u>	<u>547</u>	<u>583</u>
Surplus (+) or Deficit (-)	-48	-62	-51	-38	-23
High-Employment Budget Surplus (+) or Deficit (-) (Billions of dollars)	-7	-28	-26	-16	--
Total Revenues as a Share of GNP (%)	19.6	19.6	20.2	20.3	20.4
Personal Income Taxes as a Share of Personal Income (%)	10.7	10.9	11.3	11.3	11.4

Strategy III: Achievement of Economic Goals in 1981

Achievement of our economic goals in 1981 appears to require more fiscal stimulus than is implied by a high-employment balanced budget strategy. In this third exercise, the additional stimulus was added in two ways: (i) beginning in 1979, the investment tax credit was assumed to be raised from 10 to 15 percent and the 50 percent limit on the credit was assumed to be removed; (ii) in addition to the tax cuts included in Strategy II, further individual income tax reductions were assumed amounting to \$10 billion each year in 1980 and 1981. (Relative to the balanced budget strategy -- Strategy I -- this results in individual income tax cuts by 1981 of \$50 billion.) The pattern of Federal outlays assumed in this exercise is the same as in Strategy II.

The results of this strategy are shown in Table 3. Real GNP growth remains relatively strong throughout the period to 1981, and the unemployment rate declines by 1981 to our target of 4-3/4 percent. The budget, however, would still show a deficit of about \$35 billion in fiscal 1981.

The increase in the fiscal 1981 deficit from \$23 billion in Strategy II to \$35 billion in Strategy III is less than the additional cuts in individual and business taxes assumed in Strategy III. This is because part of the effects of the tax cuts on revenues would be offset by the larger increase in GNP.

Conclusions

Several conclusions follow from these exercises:

- . If we target for an actual balanced budget in fiscal 1981, we are likely to fall well short of achieving our long-run economic goals.
- . If we adopt a balanced high-employment budget strategy, the chances of achieving our economic goals would be improved. However, we may fall somewhat short of both our economic goals and our goal of a balanced budget in 1981.
- . If we target for achievement of our economic goals in 1981, we are likely to fall well short of achieving a balanced budget in fiscal 1981.

Table 3

Results of Strategy III: (Achievement of Economic Goals)

<u>Economic Results</u> (calendar years)	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Real GNP Growth, fourth quarter to fourth quarter (%)	5.9	4.9	4.8	5.1	3.7
Unemployment Rate (%)	7.0	6.4	5.8	5.2	4.8
Inflation Rate (%)	6.5	6.0	5.7	5.6	5.0
<u>Budgetary Results</u> (fiscal years)					
Revenues (Billions of \$)	358	401	452	498	548
Expenditures (Billions of \$)	<u>406</u>	<u>463</u>	<u>509</u>	<u>547</u>	<u>583</u>
Surplus (+) or Deficit (-)	-48	-62	-57	-49	-35
Total Revenues as a Share of GNP (%)	19.6	19.6	19.9	19.7	19.7
Personal Income Taxes as a Share of Personal Income (%)	10.7	10.9	11.3	11.0	10.8

Again, I want to emphasize that forecasting beyond a year or so ahead is extremely hazardous. Nonetheless, these exercises raise a question as to the consistency of our long-run economic goals and the goal of a balanced budget in 1981. Our economic projection was developed on the basis of optimistic assumptions about how the economy would perform over the next few years. Even so, our best judgment at the present time is that continued movement towards our economic objectives will require tolerating a deficit in the Federal budget in fiscal 1981. That deficit, however, would be only a fraction of the deficit levels in 1975-78.

The difficulty of reaching a high-employment economy in 1981, while simultaneously achieving a balanced budget, does not stem from inherent weakness in the private sectors of the domestic economy. Table 4 summarizes the performance of major sectors of the private economy incorporated into our projections under Strategy II. We have assumed that spending propensities of businesses and individuals remain very strong by historical standards. The rate of inflation improves from recent experience, and financial markets remain relatively easy. We would be unusually fortunate if economic developments over the next four years worked out this favorably.

The problem of achieving budget balance and a high-employment economy in 1981 stems from three sources:

1. Achievement of a balanced budget by 1981 -- even with relatively optimistic assumptions about economic performance -- requires imposing a significant degree of fiscal restraint on the economy. Perhaps the best single measure of the change in fiscal restraint is the change in the high-employment budget surplus. In Strategy II, this measure shifts from a \$28 billion deficit in fiscal 1978 to a balance between revenues and expenditures in fiscal 1981.
2. The State and local government sector also tends to act as a drag on economic growth. State and local expenditures are expected to rise by only about 2-1/2 percent a year from 1977 through 1981. State and local governments in the aggregate will be running surpluses in their budgets of \$20 to \$25 billion annually. (The largest part of these surpluses come in State and local pension funds for their own 12 million employees.) Thus, the combined high-employment surplus of both Federal and State and local governments in fiscal 1981 would be in the neighborhood of \$20 billion in our Strategy II exercise.
3. With recovery abroad likely to lag behind our own, we can expect only moderate improvement in our net exports. Large oil deficits continue to exert a drag on the economy.

Table 4

Summary of Economic Performance under Strategy II

	<u>1977 - 81</u>
Business Investment (Average Annual Increase, %)	7-3/4
Consumer Saving Rate (Annual Average, %)	5-3/4
Housing Starts (Average Annual Level, Millions of Units)	2.0
Rate of Inflation (Annual Average, %)	5-3/4
Treasury bill rate (Annual Average, %)	5-1/2
Annual growth of Employment (Millions)	2.1

Under Strategy II it would be possible to realize the following goals by 1981:

1. Enacting a tax reform package that included a substantial net tax reduction.
2. Holding the share of personal income taken by individual income taxes to something close to current levels (depending on how much business tax reduction is enacted).
3. Reducing the share of Federal expenditures in GNP to 21 percent.
4. Providing funds for high priority Administration programs, such as welfare reform, and a gradual phase-in of some form of national health insurance.

Two other goals would come close to being realized:

5. The actual deficit would be substantially reduced, to a fraction of its 1978 level (but it would not be in balance).
6. Unemployment could be steadily cut to a level approaching 5 percent (but not as far as we would like).

Since these conclusions depend upon our assumptions about the strength of the private economy -- which are on the optimistic side -- there is some chance that under Strategy II there could be an even larger shortfall from the last two goals. On the other hand, a tentative decision to move in the direction indicated by Strategy II in planning the 1979 Budget has several advantages:

- . Should the private economy prove even more buoyant than our optimistic assumptions, we would be in a position to have a balanced budget in a high level economy and would not have committed ourselves to a budgetary path that might contribute to inflation (as could be the case under Strategy III with a stronger economy).
- . Should the private economy exhibit less strength than we have assumed, you would retain the option to inject some modest additional stimulus over and above that contemplated in Strategy II. On the other hand, with a weaker economy than we have assumed, pursuing Strategy I would run the risk of inducing recession, with its huge deficits. In that case, neither the resulting rise in unemployment nor the budget deficits could be reversed by 1980 or 1981.

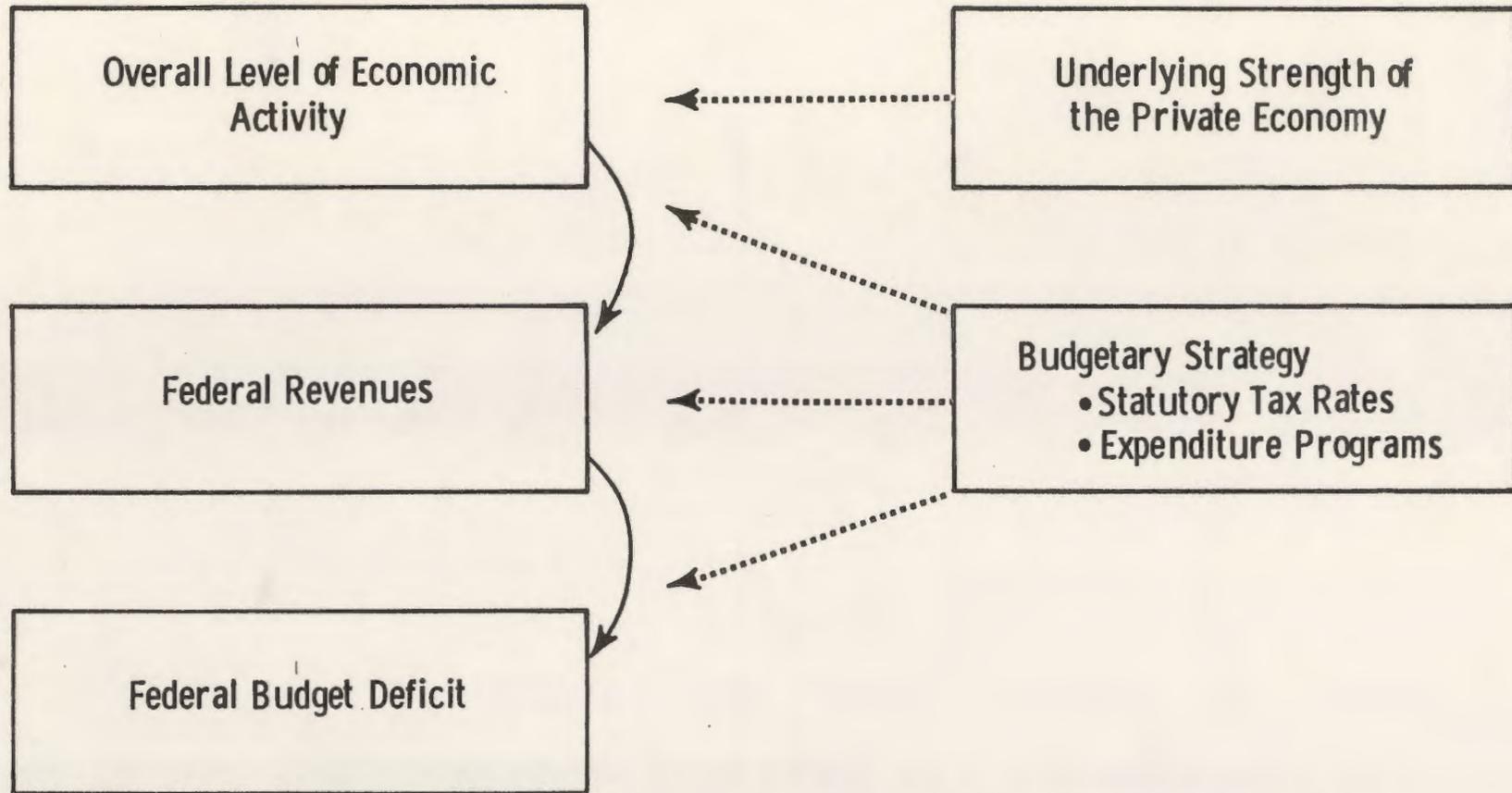
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MATERIALS FOR PRESENTATION TO THE PRESIDENT
ON THE ECONOMIC AND BUDGETARY OUTLOOK FOR FISCAL YEARS 1979-81

DETERMINED TO BE AN ADMINISTRATIVE
MARKING BY Jay DATE 7/31/81

July 8, 1977

ECONOMIC FORECASTS AND BUDGETARY STRATEGIES MUST BE JOINTLY DETERMINED



The Federal Government cannot directly determine the deficit. It can set tax rates, which will yield varying amounts of revenues, depending on the level of economic activity.

BASIC ASSUMPTIONS ABOUT UNDERLYING STRENGTH OF THE PRIVATE ECONOMY

1. No recession or prolonged pause between now and 1981. Six and a half years of steady expansion.
2. Monetary policy remains relatively expansionary.
3. The inflation rate declines moderately because of anti-inflationary program.
4. Housing starts continue to move up gradually through 1981.
5. Both consumers and businesses remain relatively confident.
 - Personal savings rate remains relatively low.
 - Business investment outlays rise strongly.

THREE BUDGET STRATEGIES

Strategy I: ACTUAL BALANCED BUDGET

Balance the 1981 budget, regardless of whether economic goals are met.

Strategy II: HIGH EMPLOYMENT BALANCED BUDGET

Set fiscal dials (tax rates, expenditure programs) to produce 1981 balanced budget only if we have high employment economy.

- If actual GNP equals high employment target in 1981, the actual budget is balanced.
- If actual GNP is less than high employment target in 1981, the budget is in deficit.

Strategy III: ACHIEVEMENT OF 1981 ECONOMIC GOALS

Set fiscal dials to achieve 1981 economic goals, regardless of whether budget is balanced.

STRATEGY I

Outlays
(Fiscal years; in billions of dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Strategy I.....	406	463	504	537	573
OMB, June 23.....	406	463	499	529	560

Outlays rise, by 1981, to \$13 billion above OMB June 23 presentation. They equal 21.4 percent of GNP in 1981.

Measures of Fiscal Restraint in Strategy I

- Annual growth in real Federal outlays, 1979-1981, is less than 2 percent.
- Federal receipts as a percent of GNP rise from 19.6 percent in 1977 to 21.4 percent in 1981.
- Actual budget deficit declines by more than \$60 billion from 1978 to 1981, even though unemployment falls very little.

STRATEGY I: RESULTS

	Calendar Years				
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>ECONOMIC RESULTS</u>					
Real GNP growth, fourth quarter to fourth quarter (percent).....	5.9	4.9	3.2	3.8	3.3
Unemployment rate (percent).....	7.0	6.4	6.0	5.9	5.8
Inflation rate (percent).....	6.5	6.0	5.7	5.3	4.4

	Fiscal Years				
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>BUDGETARY RESULTS</u>					
Receipts (billions of dollars).....	358	401	459	510	573
Outlays (billions of dollars).....	<u>406</u>	<u>463</u>	<u>504</u>	<u>537</u>	<u>573</u>
Surplus (+) or deficit (-).....	-48	-62	-45	-27	---
Total Federal receipts as a share of GNP (percent).....	19.6	19.6	20.3	20.7	21.4
Personal income taxes as a share of personal income (percent).....	10.7	10.9	11.6	12.0	12.4

STRATEGY II

Outlays
(Fiscal years; in billions of dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Strategy II.....	406	463	509	547	583
Strategy I.....	406	463	504	537	573
OMB, June 23.....	406	463	499	529	560

- Outlays rise, by 1981, to \$23 billion above OMB June 23 presentation. They equal 21.3 percent of GNP in 1981.
- Individual income taxes cut \$10 billion each year in 1979, 1980, and 1981 (a reduction of \$30 billion in the level of individual income taxes in 1981).

STRATEGY II: RESULTS

	Calendar Years				
	1977	1978	1979	1980	1981
<u>ECONOMIC RESULTS</u>					
Real GNP growth, fourth quarter to fourth quarter (percent).....	5.9	4.9	4.4	4.2	3.3
Unemployment rate (percent).....	7.0	6.4	5.8	5.4	5.2
Inflation rate (percent).....	6.5	6.0	5.8	5.5	4.7

	Fiscal Years				
	1977	1978	1979	1980	1981
<u>BUDGETARY RESULTS</u>					
Receipts (billions of dollars).....	358	401	458	509	560
Outlays (billions of dollars).....	406	463	509	547	583
Surplus (+) or deficit (-).....	-48	-62	-51	-38	-23
High-employment budget, surplus (+) or deficit (-).....	-7	-28	-26	-16	---
Total receipts as a share of GNP (percent).....	19.6	19.6	20.2	20.3	20.4
Personal income taxes as a share of personal income (percent).....	10.7	10.9	11.3	11.3	11.4

SUMMARY OF ECONOMIC PERFORMANCE UNDER STRATEGY II

	<u>1977-1981</u>
Business investment (average annual increase, percent).....	7-3/4
Consumer saving rate (annual average, percent).....	5-3/4
Housing starts (average annual level, millions of units).....	2.0
Rate of inflation (annual average, percent).....	5-3/4
Treasury bill rate (annual average, percent).....	5-1/2
Annual growth of employment (millions).....	2.1

STRATEGY III

Outlays
(Fiscal years; in billions of dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Strategy III.....	406	463	509	547	583
Strategy II.....	406	463	509	547	583
Strategy I.....	406	463	504	537	573
OMB, June 23.....	406	463	499	529	560

Outlays rise, by 1981, to \$23 billion above OMB June 23 presentation. They equal 20.9 percent of GNP in 1981.

Individual income taxes cut \$10 billion in 1979, \$20 billion in 1980, and \$20 billion in 1981 (a reduction of \$50 billion in the level of individual income taxes in 1981).

Investment tax credit raised from 10 to 15 percent, and the 50 percent limit on the credit removed, in 1979.

STRATEGY III: RESULTS

	Calendar Years				
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>ECONOMIC RESULTS</u>					
Real GNP growth, fourth quarter to fourth quarter (percent).....	5.9	4.9	4.8	5.1	3.7
Unemployment rate (percent).....	7.0	6.4	5.8	5.2	4.8
Inflation rate (percent).....	6.5	6.0	5.7	5.6	5.0
	Fiscal Years				
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>BUDGETARY RESULTS</u>					
Receipts (billions of dollars).....	358	401	452	498	548
Outlays (billions of dollars).....	<u>406</u>	<u>463</u>	<u>509</u>	<u>547</u>	<u>583</u>
Surplus (+) or deficit (-).....	-48	-62	-57	-49	-35
Total receipts as a share of GNP (percent)....	19.6	19.6	19.9	19.7	19.6
Personal income taxes as a share of personal income (percent).....	10.7	10.9	11.3	11.0	10.8

10:45 a.m.

THE PRESIDENT HAS SEEN.

Box 36
Hand.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

1

July 5, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze
SUBJECT: Economic and Budgetary Outlook for
Fiscal Years 1979-81

CEA and OMB have reviewed the economic and budgetary outlook through fiscal 1979 and made a general assessment of prospects through fiscal 1981.

The approach we have used differs materially from that employed in the first budget presentation on May 25. In that earlier presentation:

- . An economic growth path to our unemployment target in 1981 was assumed.
- . A course of Federal expenditures was projected based on current programs, Administration proposals, and OMB recommendations for expenditure restraint.
- . Given the assumed growth of the economy, Federal revenues and the deficit were calculated.

During the May 25 meeting, you asked us to develop estimates of Federal expenditures and revenues based on our best judgment of how the economy would perform between now and 1981. We have done so. I cannot overstate, however, the limits of our ability to forecast economic trends more than a year or so ahead. Beyond that, the historical relationships among the major economic variables -- on which both the formal econometric models and our own informal judgments are based -- become increasingly less reliable as predictors of events.

Alternative Budget Strategies

Both the overall level of economic activity and the size of Federal revenues are jointly determined by two basic sets of factors:

- . the underlying strength of the private economy (influenced by such things as monetary policy and "confidence").
- . budgetary strategy: the level and structure of statutory Federal tax rates and expenditure programs.

(The Federal Government cannot directly determine its total revenues; it sets statutory tax rates, which yield varying amounts of revenues depending upon the level of economic activity.)

We have developed for your consideration three alternative forecasts. All of them involve the same judgments about the underlying strength of the private economy. They differ with respect to budgetary strategy:

- . Strategy I: we balance the budget in fiscal 1981 without regard to whether or not our economic goals are being met.
- . Strategy II: the fiscal dials are set to produce a balanced budget in 1981 only if the economy returns to high employment -- that is, a 4-3/4 percent unemployment rate -- by that time. We have called this a balanced high-employment budget strategy. In this strategy, Federal expenditures and tax rates are set so that, in a high-employment economy, revenues would be equal to expenditures. If the strength of the private economy is sufficiently great, this policy would yield both an actually balanced budget and our target unemployment rate in 1981. If the private economy is weaker, the actual 1981 budget would be in deficit and unemployment would be higher than our target.

This exercise permits us to judge whether the underlying strength of the private economy is likely to be enough to generate both a high-employment economy and a balanced budget simultaneously.

- . Strategy III: fiscal policies are adopted that lead to a high-employment economy in 1981, without regard to whether or not the goal of a balanced budget is achieved. *no*

In all three strategies, we have imposed a constraint that Federal expenditures in fiscal 1981 not be more than fractionally above 21 percent of GNP.

Economic Assumptions

The assumptions we make about the underlying strength of private economic performance over the next four years reflect what we believe is realistic optimism. Specifically, we assume that:

1. The economy does not go through a recession or a prolonged pause in the rate of expansion between now and 1981. This means at least six and a half years of steady expansion after the trough of the 1974-75 recession.
2. Monetary policy remains relatively expansionary.
3. The inflation rate declines moderately because of our anti-inflationary program.
4. Housing starts continue to move up gradually through 1981.
5. Both consumers and businesses remain relatively confident.
 - . Personal savings as a proportion of after-tax income remain relatively low.
 - . Business investment outlays rise more strongly than formal econometric models would project.

Strategy I: A Balanced Budget in 1981

In their final budget presentation to you on June 23, OMB showed a pattern of outlays for fiscal years 1979-81 that would result from the 1979 agency guidance letters, assuming no further changes in policy through 1981. This expenditure pattern would imply relatively little growth in expenditures between now and 1981, after adjusting for inflation. Such a pattern of outlays, with no tax cuts, would imply very strong fiscal restraints and would result in a very poor economic performance.

In our balanced-budget forecast, we removed some of the increase in fiscal restraint by assuming a moderately faster growth rate of outlays -- beginning in fiscal 1979 and reaching \$13 billion by 1981. The adjusted level of outlays is as follows:

Outlays, Fiscal Years, Billions of Dollars

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Strategy I:	406	463	504	537	573
OMB, June 23:	406	463	499	529	560

Given these fiscal assumptions, our best judgment is that the rate of economic growth would fall significantly below our target beginning in 1979 and continuing through 1980 and 1981 (Table 1). The unemployment rate in 1981 would therefore be only a little less than 6 percent. Inflation would slow to about 4-1/2 percent. In fiscal 1981 the Federal budget would be approximately in balance, despite the low level of economic activity. Indeed, setting the fiscal dials to produce balance leads to the slowdown in economic expansion.

This may seem like a very pessimistic forecast. It results, however, from a course of budgetary policy that implies a severe degree of fiscal restraint -- despite the additional budgetary outlays allowed for. There are various ways in which the degree of fiscal restraint may be characterized:

- . Between fiscal 1978 and fiscal 1981, budget outlays are projected to rise 24 percent, while prices rise about 17 percent. In real terms, the rise in Federal outlays is less than 2 percent per year.
- . With unchanged tax laws, Federal revenues would rise significantly as a proportion of GNP -- because of growth in real income and inflation. Total revenues would rise from 19.6 percent of GNP in fiscal 1977 to 21.4 percent in fiscal 1981. Personal taxes as a proportion of personal income would increase from 10.7 percent in fiscal 1977 to 12.4 percent in fiscal 1981. That is, we would be setting the fiscal policy dials to yield a very large increase in revenues relative to expenditures.
- . Between 1978 and 1981, the actual budget deficit would decline by over \$60 billion -- even though relatively little progress is made in reducing the unemployment rate.

Strategy II: A Balanced High-Employment Budget in 1981

In the second exercise, the degree of fiscal restraint is reduced by assuming (1) a somewhat higher growth rate of Federal outlays, and (2) tax reductions to keep down the rise in Federal revenues as a proportion of GNP. The assumed pattern of Federal expenditures (shown below) implies a growth of outlays between fiscal years 1978 and 1981 \$23 billion higher than in the June 23 presentation. Because of the more rapid growth in GNP, however, the level of Federal outlays in fiscal 1981 is still about 21 percent of projected GNP in that year.

	Fiscal Years, Billions of Dollars				
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Strategy II:	406	463	509	547	583
Strategy I:	406	463	504	537	573
OMB, June 23:	406	463	499	529	560

The remainder of the additional fiscal stimulus comes from a series of successive reductions in individual income taxes amounting to \$10 billion each year in 1979, 1980, and 1981 (resulting in a reduction of \$30 billion in the level of individual income taxes by 1981). With these assumed tax cuts, individual income taxes as a share of personal income in fiscal 1981 would be about 11.4 percent -- somewhat above fiscal 1978. (For purposes of this presentation, we assumed that all the cuts were made in individual income taxes. The economic results would not be changed substantially if some tax cuts designed to stimulate business investment were substituted.)

With this additional fiscal stimulus, we would expect considerably better economic performance (Table 2). The projected rate of economic growth would be higher through the 1979-81 period than in the balanced budget forecast, and the rate of unemployment would be around 5 to 5-1/4 percent by 1981. However, we would still fall short of the 4-3/4 percent unemployment rate targeted for 1981.

The high-employment budget would be approximately in balance in fiscal 1981, but since economic growth still falls somewhat short of the amount needed to regain high employment, the actual budget would still be in deficit to the extent of about \$23 billion.

Table 2

Results of Strategy II: (High-Employment Balanced Budget)

<u>Economic Results (calendar years)</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Real GNP Growth, fourth quarter to fourth quarter (%)	5.9	4.9	4.4	4.2	3.3
Unemployment Rate (%)	7.0	6.4	5.8	5.4	5.2
Inflation Rate (%)	6.5	6.0	5.8	5.5	4.7
<u>Budgetary Results (fiscal years)</u>					
Revenues (Billions of \$)	358	401	458	509	566
Expenditures (Billions of \$)	406	463	509	547	583
Surplus (+) or Deficit (-)	-48	-62	-51	-38	-23
High-Employment Budget Surplus (+) or Deficit (-) (Billions of dollars)	-7	-28	-26	-16	--
Total Revenues as a Share of GNP (%)	19.6	19.6	20.2	20.3	20.4
Personal Income Taxes as a Share of Personal Income (%)	10.7	10.9	11.3	11.3	11.4

Strategy III: Achievement of Economic Goals in 1981

Achievement of our economic goals in 1981 appears to require more fiscal stimulus than is implied by a high-employment balanced budget strategy. In this third exercise, the additional stimulus was added in two ways: (i) beginning in 1979, the investment tax credit was assumed to be raised from 10 to 15 percent and the 50 percent limit on the credit was assumed to be removed; (ii) in addition to the tax cuts included in Strategy II, further individual income tax reductions were assumed amounting to \$10 billion each year in 1980 and 1981. (Relative to the balanced budget strategy -- Strategy I -- this results in individual income tax cuts by 1981 of \$50 billion.) The pattern of Federal outlays assumed in this exercise is the same as in Strategy II.

The results of this strategy are shown in Table 3. Real GNP growth remains relatively strong throughout the period to 1981, and the unemployment rate declines by 1981 to our target of 4-3/4 percent. The budget, however, would still show a deficit of about \$35 billion in fiscal 1981.

The increase in the fiscal 1981 deficit from \$23 billion in Strategy II to \$35 billion in Strategy III is less than the additional cuts in individual and business taxes assumed in Strategy III. This is because part of the effects of the tax cuts on revenues would be offset by the larger increase in GNP.

Conclusions

Several conclusions follow from these exercises:

- . If we target for an actual balanced budget in fiscal 1981, we are likely to fall well short of achieving our long-run economic goals.
- . If we adopt a balanced high-employment budget strategy, the chances of achieving our economic goals would be improved. However, we may fall somewhat short of both our economic goals and our goal of a balanced budget in 1981.
- . If we target for achievement of our economic goals in 1981, we are likely to fall well short of achieving a balanced budget in fiscal 1981.

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Strategy III: Achievement of Economic Goals in 1981

Achievement of our economic goals in 1981 appears to require more fiscal stimulus than is implied by a high-employment balanced budget strategy. In this third exercise, the additional stimulus was added in two ways: (i) beginning in 1979, the investment tax credit was assumed to be raised from 10 to 15 percent and the 50 percent limit on the credit was assumed to be removed; (ii) in addition to the tax cuts included in Strategy II, further individual income tax reductions were assumed amounting to \$10 billion each year in 1980 and 1981. (Relative to the balanced budget strategy -- Strategy I -- this results in individual income tax cuts by 1981 of \$50 billion.) The pattern of Federal outlays assumed in this exercise is the same as in Strategy II.

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The increase in the fiscal 1981 deficit from \$23 billion in Strategy II to \$35 billion in Strategy III is less than the additional cuts in individual and business taxes assumed in Strategy III. This is because part of the effects of the tax cuts on revenues would be offset by the larger increase in GNP.

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- . If we adopt a balanced high-employment budget strategy, the chances of achieving our economic goals would be improved. However, we may fall somewhat short of both our economic goals and our goal of a balanced budget in 1981.
- . If we target for achievement of our economic goals in 1981, we are likely to fall well short of achieving a balanced budget in fiscal 1981.

Table 3

Results of Strategy III: (Achievement of Economic Goals)

<u>Economic Results (calendar years)</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Real GNP Growth, fourth quarter to fourth quarter (%)	5.9	4.9	4.8	5.1	3.7
Unemployment Rate (%)	7.0	6.4	5.8	5.2	4.8
Inflation Rate (%)	6.5	6.0	5.7	5.6	5.0
<u>Budgetary Results (fiscal years)</u>					
Revenues (Billions of \$)	358	401	452	498	548
Expenditures (Billions of \$)	<u>406</u>	<u>463</u>	<u>509</u>	<u>547</u>	<u>583</u>
Surplus (+) or Deficit (-)	-48	-62	-57	-49	-35
Total Revenues as a Share of GNP (%)	19.6	19.6	19.9	19.7	19.7
Personal Income Taxes as a Share of Personal Income (%)	10.7	10.9	11.3	11.0	10.8

Again, I want to emphasize that forecasting beyond a year or so ahead is extremely hazardous. Nonetheless, these exercises raise a question as to the consistency of our long-run economic goals and the goal of a balanced budget in 1981. Our economic projection was developed on the basis of optimistic assumptions about how the economy would perform over the next few years. Even so, our best judgment at the present time is that continued movement towards our economic objectives will require tolerating a deficit in the Federal budget in fiscal 1981. That deficit, however, would be only a fraction of the deficit levels in 1975-78.

The difficulty of reaching a high-employment economy in 1981, while simultaneously achieving a balanced budget, does not stem from inherent weakness in the private sectors of the domestic economy. Table 4 summarizes the performance of major sectors of the private economy incorporated into our projections under Strategy II. We have assumed that spending propensities of businesses and individuals remain very strong by historical standards. The rate of inflation improves from recent experience, and financial markets remain relatively easy. We would be unusually fortunate if economic developments over the next four years worked out this favorably.

The problem of achieving budget balance and a high-employment economy in 1981 stems from three sources:

1. Achievement of a balanced budget by 1981 -- even with relatively optimistic assumptions about economic performance -- requires imposing a significant degree of fiscal restraint on the economy. Perhaps the best single measure of the change in fiscal restraint is the change in the high-employment budget surplus. In Strategy II, this measure shifts from a \$28 billion deficit in fiscal 1978 to a balance between revenues and expenditures in fiscal 1981.
2. The State and local government sector also tends to act as a drag on economic growth. State and local expenditures are expected to rise by only about 2-1/2 percent a year from 1977 through 1981. State and local governments in the aggregate will be running surpluses in their budgets of \$20 to \$25 billion annually. (The largest part of these surpluses come in State and local pension funds for their own 12 million employees.) Thus, the combined high-employment surplus of both Federal and State and local governments in fiscal 1981 would be in the neighborhood of \$20 billion in our Strategy II exercise.
3. With recovery abroad likely to lag behind our own, we can expect only moderate improvement in our net exports. Large oil deficits continue to exert a drag on the economy.

Table 4

Summary of Economic Performance under Strategy II

	<u>1977 - 81</u>
Business Investment (Average Annual Increase, %)	7-3/4
Consumer Saving Rate (Annual Average, %)	5-3/4
Housing Starts (Average Annual Level, Millions of Units)	2.0
Rate of Inflation (Annual Average, %)	5-3/4
Treasury bill rate (Annual Average, %)	5-1/2
Annual growth of Employment (Millions)	2.1

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Under Strategy II it would be possible to realize the following goals by 1981:

1. Enacting a tax reform package that included a substantial net tax reduction.
2. Holding the share of personal income taken by individual income taxes to something close to current levels (depending on how much business tax reduction is enacted).
3. Reducing the share of Federal expenditures in GNP to 21 percent.
4. Providing funds for high priority Administration programs, such as welfare reform, and a gradual phase-in of some form of national health insurance.

Two other goals would come close to being realized:

5. The actual deficit would be substantially reduced, to a fraction of its 1978 level (but it would not be in balance).
6. Unemployment could be steadily cut to a level approaching 5 percent (but not as far as we would like).

Since these conclusions depend upon our assumptions about the strength of the private economy -- which are on the optimistic side -- there is some chance that under Strategy II there could be an even larger shortfall from the last two goals. On the other hand, a tentative decision to move in the direction indicated by Strategy II in planning the 1979 Budget has several advantages:

- . Should the private economy prove even more buoyant than our optimistic assumptions, we would be in a position to have a balanced budget in a high level economy and would not have committed ourselves to a budgetary path that might contribute to inflation (as could be the case under Strategy III with a stronger economy).
- . Should the private economy exhibit less strength than we have assumed, you would retain the option to inject some modest additional stimulus over and above that contemplated in Strategy II. On the other hand, with a weaker economy than we have assumed, pursuing Strategy I would run the risk of inducing recession, with its huge deficits. In that case, neither the resulting rise in unemployment nor the budget deficits could be reversed by 1980 or 1981.

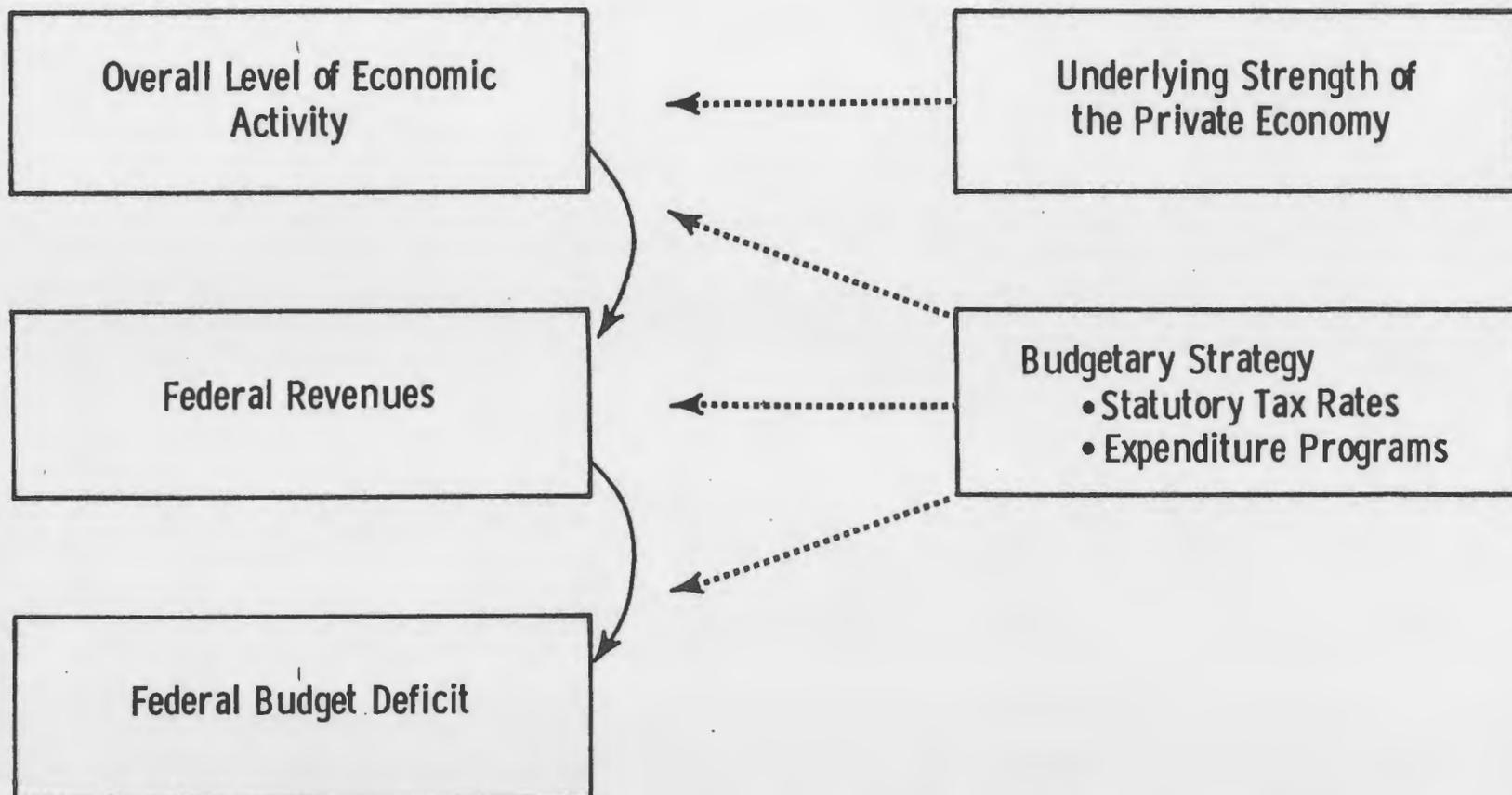
~~CONFIDENTIAL~~

MATERIALS FOR PRESENTATION TO THE PRESIDENT
ON THE ECONOMIC AND BUDGETARY OUTLOOK FOR FISCAL YEARS 1979-81

DETERMINED TO BE AN ADMINISTRATIVE
MARKING BY Jay DATE 7/3/89

July 8, 1977

ECONOMIC FORECASTS AND BUDGETARY STRATEGIES MUST BE JOINTLY DETERMINED



The Federal Government cannot directly determine the deficit. It can set tax rates, which will yield varying amounts of revenues, depending on the level of economic activity.

BASIC ASSUMPTIONS ABOUT UNDERLYING STRENGTH OF THE PRIVATE ECONOMY

1. No recession or prolonged pause between now and 1981. Six and a half years of steady expansion.
2. Monetary policy remains relatively expansionary.
3. The inflation rate declines moderately because of anti-inflationary program.
4. Housing starts continue to move up gradually through 1981.
5. Both consumers and businesses remain relatively confident.
 - Personal savings rate remains relatively low.
 - Business investment outlays rise strongly.

THREE BUDGET STRATEGIES

Strategy I: ACTUAL BALANCED BUDGET

Balance the 1981 budget, regardless of whether economic goals are met.

Strategy II: HIGH EMPLOYMENT BALANCED BUDGET

Set fiscal dials (tax rates, expenditure programs) to produce 1981 balanced budget only if we have high employment economy.

- If actual GNP equals high employment target in 1981, the actual budget is balanced.
- If actual GNP is less than high employment target in 1981, the budget is in deficit.

Strategy III: ACHIEVEMENT OF 1981 ECONOMIC GOALS

Set fiscal dials to achieve 1981 economic goals, regardless of whether budget is balanced.

STRATEGY I

Outlays
(Fiscal years; in billions of dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Strategy I.....	406	463	504	537	573
OMB, June 23.....	406	463	499	529	560

Outlays rise, by 1981, to \$13 billion above OMB June 23 presentation. They equal 21.4 percent of GNP in 1981.

Measures of Fiscal Restraint in Strategy I

- Annual growth in real Federal outlays, 1979-1981, is less than 2 percent.
- Federal receipts as a percent of GNP rise from 19.6 percent in 1977 to 21.4 percent in 1981.
- Actual budget deficit declines by more than \$60 billion from 1978 to 1981, even though unemployment falls very little.

STRATEGY I: RESULTS

	Calendar Years				
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>ECONOMIC RESULTS</u>					
Real GNP growth, fourth quarter to fourth quarter (percent).....	5.9	4.9	3.2	3.8	3.3
Unemployment rate (percent).....	7.0	6.4	6.0	5.9	5.8
Inflation rate (percent).....	6.5	6.0	5.7	5.3	4.4
	Fiscal Years				
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>BUDGETARY RESULTS</u>					
Receipts (billions of dollars).....	358	401	459	510	573
Outlays (billions of dollars).....	<u>406</u>	<u>463</u>	<u>504</u>	<u>537</u>	<u>573</u>
Surplus (+) or deficit (-).....	-48	-62	-45	-27	---
Total Federal receipts as a share of GNP (percent).....	19.6	19.6	20.3	20.7	21.4
Personal income taxes as a share of personal income (percent).....	10.7	10.9	11.6	12.0	12.4

STRATEGY II

Outlays
(Fiscal years; in billions of dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Strategy II.....	406	463	509	547	583
Strategy I.....	406	463	504	537	573
OMB, June 23.....	406	463	499	529	560

- Outlays rise, by 1981, to \$23 billion above OMB June 23 presentation. They equal 21.3 percent of GNP in 1981.
- Individual income taxes cut \$10 billion each year in 1979, 1980, and 1981 (a reduction of \$30 billion in the level of individual income taxes in 1981).

STRATEGY II: RESULTS

	Calendar Years				
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>ECONOMIC RESULTS</u>					
Real GNP growth, fourth quarter to fourth quarter (percent).....	5.9	4.9	4.4	4.2	3.3
Unemployment rate (percent).....	7.0	6.4	5.8	5.4	5.2
Inflation rate (percent).....	6.5	6.0	5.8	5.5	4.7
	Fiscal Years				
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>BUDGETARY RESULTS</u>					
Receipts (billions of dollars).....	358	401	458	509	560
Outlays (billions of dollars).....	<u>406</u>	<u>463</u>	<u>509</u>	<u>547</u>	<u>583</u>
Surplus (+) or deficit (-).....	-48	-62	-51	-38	-23
High-employment budget, surplus (+) or deficit (-).....	-7	-28	-26	-16	---
Total receipts as a share of GNP (percent).....	19.6	19.6	20.2	20.3	20.4
Personal income taxes as a share of personal income (percent).....	10.7	10.9	11.3	11.3	11.4

SUMMARY OF ECONOMIC PERFORMANCE UNDER STRATEGY II

	<u>1977-1981</u>
Business investment (average annual increase, percent).....	7-3/4
Consumer saving rate (annual average, percent).....	5-3/4
Housing starts (average annual level, millions of units).....	2.0
Rate of inflation (annual average, percent).....	5-3/4
Treasury bill rate (annual average, percent).....	5-1/2
Annual growth of employment (millions).....	2.1

STRATEGY III

Outlays
(Fiscal years; in billions of dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Strategy III.....	406	463	509	547	583
Strategy II.....	406	463	509	547	583
Strategy I.....	406	463	504	537	573
OMB, June 23.....	406	463	499	529	560

Outlays rise, by 1981, to \$23 billion above OMB June 23 presentation. They equal 20.9 percent of GNP in 1981.

Individual income taxes cut \$10 billion in 1979, \$20 billion in 1980, and \$20 billion in 1981 (a reduction of \$50 billion in the level of individual income taxes in 1981).

Investment tax credit raised from 10 to 15 percent, and the 50 percent limit on the credit removed, in 1979.

STRATEGY III: RESULTS

	Calendar Years				
	1977	1978	1979	1980	1981
<u>ECONOMIC RESULTS</u>					
Real GNP growth, fourth quarter to fourth quarter (percent).....	5.9	4.9	4.8	5.1	3.7
Unemployment rate (percent).....	7.0	6.4	5.8	5.2	4.8
Inflation rate (percent).....	6.5	6.0	5.7	5.6	5.0
	Fiscal Years				
	1977	1978	1979	1980	1981
<u>BUDGETARY RESULTS</u>					
Receipts (billions of dollars).....	358	401	452	498	548
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THE WHITE HOUSE
WASHINGTON

ACTION	FYI
	MONDALE
	COSTANZA
	EIZENSTAT
<input checked="" type="checkbox"/>	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
	WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	FOR STAFFING
	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HOYT
	HUTCHESON
	JAGODA
	KING

	KRAFT
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	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	STRAUSS
	WELLS
	VOORDE

THE WHITE HOUSE
WASHINGTON

July 7, 1977

Hamilton Jordan -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: Micronesian Negotiator

THE PRESIDENT HAS SEEN.

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

Ham J

July 6, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: HAMILTON JORDAN *H.J.*
SUBJECT: Micronesian Negotiator

The selection of a Negotiator for the Micronesia Status Negotiations has drawn conflicting recommendations from Zbig and Cy Vance. Attached at Tab A is State's recommendation of Peter Rosenblatt, with supporting material. Attached at Tab B, is Zbig's recommendation of Barry Carter, with supporting material.

Briefly, Barry Carter is a San Francisco lawyer who formerly served on the NSC staff; he is well qualified. Interior has indicated they would support him. Zbig has received letters for Carter from Senators Church and Cranston.

Peter Rosenblatt is a private lawyer in Washington who has the personal support of Cy Vance and others in State. One of Zbig's objections to him was that he would only do the job part-time. Cy has discussed this with you and indicates he has now resolved that satisfactorily. In addition Cy believes Rosenblatt has other connections on the hill (principally Jackson). Zbig believe Rosenblatt is not a strong supporter of you.

We have tried consistently to have Cy and Zbig come up with a choice they could agree upon for this position but have been completely unsuccessful.

Given Cy's support for Rosenblatt, and his indications that he has already practically offered him the job, you face a difficult choice.

However you decide, we could justify the choice on general qualifications. The urgency lies in the fact the negotiations are scheduled to resume mid-July in Guam.

Approve _____ Carter _____ Disapprove

Approve Rosenblatt _____ Disapprove

Get me more information _____

I don't recall any approval of Rosenblatt or else anyone else J

J.C.

Attachments

P.S. Mr. President - I can't get agreement on this between State and NSC - you'll have to decide. When Cy receives your approval directly for an appointment (as I think happened here or did happen with Frank Carlucci), there is no way that we can present you different options and information. yd.

A
(STAT

THE SECRETARY OF STATE
WASHINGTON

June 30, 1977

MEMORANDUM FOR: THE PRESIDENT
From: Cyrus Vance *CV*
Subject: Micronesia Negotiator

Following our Saturday morning discussion, my staff talked to Peter Rosenblatt about his possible appointment as Micronesia negotiator. He agreed to take this position on a full-time rather than on a part-time basis as was the case with the last negotiator.

Because he is a single law practitioner here in Washington without any partners or associates, and has a number of matters pending, he will need a few months to phase out existing cases (mostly matrimonial and estate matters). During this period, however, he will put first priority on performing his duties for us.

Recommendation:

That you approve his appointment as Micronesia negotiator with the personal rank of Ambassador and that we be authorized to proceed with the steps necessary to submit his name to the Senate for confirmation. The next meeting with the Micronesians is scheduled for mid-July in Guam.

Approve _____ Disapprove _____



DEPARTMENT OF STATE

Washington, D.C. 20520

June 17, 1977

MEMORANDUM RE MICRONESIAN NEGOTIATOR

It is of the highest importance that the special negotiator for Micronesia be appointed as soon as possible. Negotiations are about to recommence in mid-July in Guam, and it is extremely difficult to make progress without a designated negotiator.

It is the view of the Department of State (concurring in by numerous outsiders, including many close to the Micronesians themselves) that this Administration can capitalize on President Carter's new initiatives towards the Micronesians by having a new negotiator untouched by past difficulties.

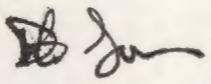
The Secretary of State has recommended Peter Rosenblatt who is in private law practice but has also had governmental experience. The Department of Defense, which has a major interest in this matter, has indicated that it would be very pleased with Rosenblatt. Rosenblatt would also be extremely useful given his contacts on the Hill, especially with those who might be particularly concerned about US defense interests in the Pacific (for example, Senator Jackson). Rosenblatt also has close relations with organized labor and Jewish organizations which, although not particularly concerned with Micronesia, are generally important factors in foreign policy matters.

Two Foreign Service Officers have also been suggested for the position. The Department of State previously recommended Gene McAuliffe, former Ambassador to Hungary and Assistant Secretary of Defense. We would continue to recommend him if a professional Foreign Service Officer were desired for this position.

Philip Manhard, who is Acting Negotiator at this time.

~~CONFIDENTIAL~~

June 24, 1977

MEMORANDUM FOR: HAMILTON JORDAN
FROM: ZBIGNIEW BRZEZINSKI 
SUBJECT: Micronesian Negotiator

We need to move urgently to select the President's Personal Representative for Micronesian Status Negotiations. We initiated consultations with the Micronesians May 18-21; a second round of talks is scheduled for late July. We need a Chief Negotiator to manage the task of hammering out a comprehensive negotiating strategy that all interested agencies can support. At present there is some confusion over the state-of-play on this appointment. Some weeks ago I sent a memo to the President offering some reservations to the State recommendation that Eugene McAuliffe be named to this post and suggesting several alternatives, including Barry Carter (a San Francisco lawyer who formerly served on the NSC staff) and Phil Trezise (former Assistant Secretary of State for Economic Affairs who is now at Brookings).

Trezise has now indicated he cannot consider this appointment. McAuliffe is out of the running at this stage, but we have the following candidates:

- Barry Carter has inquired whether he is "still in the running."
- State now recommends Peter Rosenblatt for the position.
- Interior has proposed that Phil Manhard be elevated to Chief Negotiator, or, alternatively, that John Havelock be considered for that assignment.

Rosenblatt is a Washington lawyer with previous foreign policy experience at AID and on the White House staff. He is interested in the assignment, but is prepared to assume the responsibility only on a part-time basis. I believe his appointment would be a mistake. He is not a supporter of the President. Further, as the tempo of the negotiations increases, this will consequently be a full-time job.

~~CONFIDENTIAL~~

"DETERMINED TO BE AN ADMINISTRATIVE MARKING
CANCELLED PER E.O. 12333, SEC. 1.3 AND
ARCHIVIST'S MEMO OF MARCH 16, 1993"

As for manhard, by all accounts he acquitted himself reasonably well at the Honolulu consultations. He is a professional, knows the issues, and has some empathy for the Micronesians. He is not a "new face," however, and neither State nor Defense would endorse his selection.

John Havelock is an unknown quantity. He is a lawyer and is currently serving as Director of Legal Studies at the University of Alaska. He has no previous foreign policy experience, and no personal familiarity with the issues in the Micronesian negotiations.

I still believe that Barry Carter has superior qualifications to the individuals recommended. His resume is attached at Tab A. Note that in 1973 he was involved in the U.S. talks with the Marianas. This work led him to delve into the many issues regarding the political status of Micronesia.

You might want to solicit the views of the Vice President about this matter. *

RECOMMENDATION:

That you raise this issue with the President, and urge early selection of Barry Carter as Chief Negotiator.

*(Note: After discussion with the VP's staff, it was indicated he did not wish to go on record either way)

H. J.

May 1977

RESUME

CARTER, BARRY E.

225 Telegraph Hill Blvd.
San Francisco, CA. 94133

Phone: (415) 777-6232
Home Phone: (415) 392-1669

Birthdate: 10/14/42. Excellent health
Single

I. Present and Recent Employment

- A. Attorney
Morrison & Foerster in San Francisco

I came here in December 1975 as an associate with some seniority to work on a variety of litigation matters, principally antitrust issues at present.

- B. Attorney
Senate Select Committee on Intelligence Activities

From March through December 1975 I was the senior attorney on the Military and Technology Task Force, one of the four task forces. I had some general responsibilities and directed a number of specific studies. These studies included one on the electronic surveillance activities of the National Security Agency, the largest U.S. intelligence agency, and one on the future role of U.S. intelligence activities in detecting nuclear proliferation and terrorism.

- C. Attorney
Wilmer, Cutler & Pickering in Washington, D.C.

I worked there from December 1972 - March 1975 as an associate, mostly on litigation matters. Major cases included representing the people of the Marianas Islands who are seeking to become a U.S. Commonwealth and representing a government agency regarding the constitutionality of the Regional Rail Reorganization Act of 1973.

- D. Research Fellow
Institute of Politics, Kennedy School of Government,
Harvard University
(Also, an International Affairs Fellow of the
Council on Foreign Relations)

I was a Fellow from June - December 1972 and primarily read and wrote on decision-making in national security affairs. People I worked with included Professors Richard Neustadt, Graham Allison, and John Steinbruner.

- E. Program Analyst
National Security Council (i.e., Dr. Henry Kissinger's staff)

While on the NSC staff from October 1970 to June 1972, most of my time was spent on the Strategic Arms Limitation Talks between the U.S. and the U.S.S.R. I also devoted considerable time to the defense budget and NATO.

I frequently drafted substantive memoranda for Dr. Kissinger and the President, helped the preparations for interagency meetings chaired by Dr. Kissinger, and was the NSC staff representative on a number of interagency studies, chairing some of them myself.

- F. NATO and General Purpose Force Division, Office of the Assistant Secretary of Defense (Systems Analysis), the Pentagon.

I was a program analyst there from September 1969 to October 1970 while an Army lieutenant. I handled issues dealing with the defense budget and NATO.

II. Education

- A. Yale Law School. J.D., 1969

-- While class rankings are not available, I probably ranked in the upper 5 to 15% of my class. Courses included a wide range of subjects -- e.g., constitutional, tax and corporate law.

-- Extracurricular: Projects Editor, Yale Law Journal; Phi Delta Phi; Book and Gavel. (See "Publications" at IV.)

B. Woodrow Wilson School of Public and International Affairs, Princeton University. M.P.A. (Economics and Public Affairs), 1966.

-- Most of my courses were in economics; the emphasis was on applying theory to practical problems.

C. Stanford University. B.A. (History), 1964.

-- Awards: Phi Beta Kappa; graduated "with great distinction"; Tressider Award for Outstanding Stanford Debater.

-- Extracurricular: Debate captain; Vice-President, Political Union; Elected representative, Student Legislature; Intramural sports.

III. Other Employment

Bureau of the Budget, Mayor's Office
New York City Hall
New York, New York Superior: Peter Goldmark

I was employed there the summer of 1967 as a program analyst. My job was to develop programming-planning-budgeting (PPB) for the New York City government, especially on the subject of narcotics addiction.

IV. Publications, Memberships, Conferences, Travel

A. Publications: "Organizational and Political Dimensions of the Strategic Posture: The Problems of Reform," in Daedalus, Summer 1975 (with co-author), reprinted in Long and Rathjens, Arms, Defense Policy and Arms Control (Norton: 1976); "Nuclear Strategy and Nuclear Weapons," Scientific American, May 1974; "What's Next in Arms Control?" Orbis, Spring 1973; "Effective Guaranty of a Speedy Trial for Convicts in Other Jurisdictions," 77 Yale L.J. 767 (1968).

B. Professional Associations: Council on Foreign Relations; Treasurer and Director, Arms Control Association; Assistant Secretary, S.F. Committee on Foreign Relations; Northern California World Affairs Council; New Directions; American Bar Association; San Francisco Bar Association.

- C. Bar Memberships: California; District of Columbia (inactive); Supreme Court.
- D. Conferences, Lectures: Lectured at Harvard and Wesleyan on U.S.-Soviet relations and at the Council on Foreign Relations on national security vs. individual privacy. Attendance at numerous conferences on national security issues.
- E. Travel: Extensive travel and study in Europe and Central America, some travel in the Middle East. From Nov. 14-21, 1976, I was in the Soviet Union with a UNA group discussing national security issues with Soviet officials.

V. References

A. Foreign Policy Background

1. R. James Woolsey, Under Secretary of the Navy, Pentagon. (Formerly General Counsel, Senate Armed Services Committee.)
2. Philip Odeen, Vice President, Wilson Sporting Goods, River Grove, Illinois. (Former Director of the Program Analysis Division of the NSC staff.)
3. Dr. Morton Halperin, presently Director of the ACLU Project on National Security and Civil Liberties.
4. Congressman Les Aspin.
5. Dr. John Steinbruner, Assistant Professor of Political Science at Yale University.
6. Dr. Marshall D. Shulman, Director, The Russian Institute, Columbia University, and advisor to Secretary of State Vance.
7. Dr. William Kaufmann, Professor of Political Science, M.I.T., Cambridge, Mass. (Advisor to former Secretaries of Defense Schlesinger and McNamara.)
8. Dr. K. Wayne Smith, Executive Vice President, The Washington Group, Inc. (Another former Director of the NSC Program Analysis Division.)

B. Legal Background

1. Stephen S. Dunham at Morrison & Foerster.
2. John Bryson, Chairman, California Water Resources Board, Sacramento.

FRANK CHURCH, IDAHO, CHAIRMAN

EDMUND S. MUSKIE, MAINE
LAWTON CHILES, FLA.
JOHN GLENN, OHIO
JOHN MELCHER, MONT.
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EDWARD W. BROOKE, MASS.
CHARLES H. PERCY, ILL.

WILLIAM E. ORiol, STAFF DIRECTOR
DAVID A. AFFELDT, CHIEF COUNSEL
JOHN GUY MILLER, MINORITY STAFF DIRECTOR

United States Senate

SPECIAL COMMITTEE ON AGING

WASHINGTON, D.C. 20510

June 24, 1977

Handwritten notes:
FRANK CHURCH
FUT

The Honorable Cecil Andrus
Secretary of Interior
Department of Interior
C Street between 18th and 19th
Washington, D.C. 20240

Handwritten note:
file
Murnaghan

Dear Cece:

I would like to bring to your personal attention a man who worked on the Senate Intelligence Committee and who now practices law in California, Barry Carter. Barry is one of three people being considered for U.S. negotiator to Micronesia. He is a man of uncommon intelligence, integrity and insight. As a member of the Intelligence Committee staff Barry directed studies of the National Security Agency and the problems involved with nuclear proliferation.

Prior to joining the Select Committee Barry was an Attorney with Wilmer, Cutler and Pickering in Washington, D.C. where he specialized in representing the people of the Marianas Islands. Barry knows the issues involved in Micronesia intimately and is highly qualified to serve as the head of the negotiating team. He has earned the respect and admiration of the people of Micronesia and could deal effectively with the ticklish diplomatic issues involved.

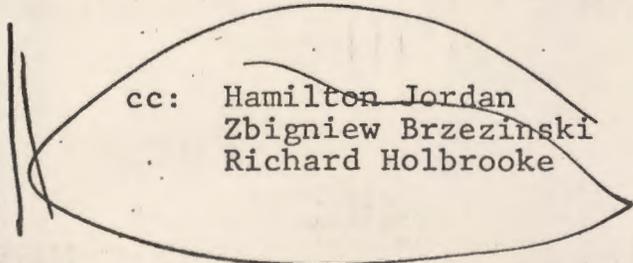
I know how important this post is and I have no doubt that Barry Carter would perform admirably. I hope that the Administration acts favorably on his appointment.

With best wishes,

Sincerely,

Frank Church

cc: Hamilton Jordan
Zbigniew Brzezinski
Richard Holbrooke



ALAN CRANSTON
CALIFORNIA

United States Senate

WASHINGTON, D.C. 20510

June 28, 1977

Dr. Zbigniew Brzezinski
National Security Council
Old Executive Office Building
Washington, D. C. 20506

Zbigniew
Dear Dr. Brzezinski,

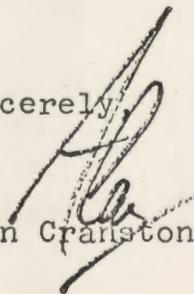
It's a pleasure to recommend a fellow Californian and San Francisco attorney, Barry E. Carter, for appointment as U.S. negotiator on the future political status of Micronesia. I understand that Mr. Carter is among the final candidates under consideration for this sensitive position.

Barry's background seems excellent for the job -- he served as a program analyst at the Pentagon for NATO and defense issues, on the National Security Council staff for two years, and as the senior attorney on the Military and Technology Task Force of the Senate Select Committee on Intelligence Activities in 1975. One of his major cases when he was working with a law firm here in Washington involved representing the people of the Marianas in their bid to become a US Commonwealth. During the time he spent on that case, Barry delved deeply into the complex issues surrounding the future status of these islands, and has continued to take a personal interest in keeping up-to-date on the situation.

While I don't know Barry Carter personally, I believe he is well-qualified to represent the U.S. in these negotiations. I would urge you give his vitae, which I am enclosing, your thoughtful consideration and review.

With best wishes,

Sincerely,


Alan Cranston

Enclosure

PERSONAL NOTE



THE WHITE HOUSE
WASHINGTON

Personal

7-8-77

To Ken Curtis
(Ham-info)

I believe it is a serious mistake to have either Carmela Coleman in a remote executive position. Now we need a strong and able woman in DMC headquarters who works directly for you. Please let me know what can be done.

Jimmy

THE WHITE HOUSE
WASHINGTON

July 8, 1977

Stu Eizenstat -

The attached was returned in
the President's outbox. It is
forwarded to you for your
information.

Rick Hutcheson

Re: Minimum Wage Proposals

cc: Landon Butler

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS
815 Sixteenth Street, N.W., Washington, D. C. 20006



MEMORANDUM

Date: July 6, 1977

To: Rudy Oswald
From: Clara F. Schloss
Subject: Minimum Wage Proposals

Stu J

Previous memoranda on this subject were prepared on the assumption that the minimum wage would be increased sometime in 1977. That assumption no longer seems valid and previous estimates are no longer useful. Three new sets of estimates have been prepared on the assumption that the effective date will be in 1978 -- January, April or July.

Assumption A

The minimum wage will be increased initially in Jan. 1978 and each January thereafter. The pertinent data are as follows:

- 1) The annual average of straight-time hourly earnings in manufacturing for the year Oct. 1975 to Sept. 1976 was \$4.89.
- 2) Using the Department of Labor estimate that wages will rise ² 7 percent a year, the estimated annual averages for

Oct. 1976 - Sept. 1977	-	\$5.23
Oct. 1977 - Sept. 1978	-	5.60
Oct. 1978 - Sept. 1979	-	5.99

Using these basic figures and ratios of 52%, 53% and 55% -- would yield:

<u>Effective</u>	<u>52%</u>	<u>53%</u>	<u>55%</u>
Jan. 1, 1978*	\$2.72	\$2.77	\$2.88
Jan. 1, 1979	2.91	2.97	3.08
Jan. 1, 1980	3.11	3.17	3.29

*Note: It may be that the first rate would be set somewhat lower so as to average out the initial increase and the first automatic step-up. For example, if 53% is the agreed ratio -- the initial rate might be set at \$2.65 in Jan. 1978 (+\$.35) and \$2.97 in Jan. 1979 (+\$.32) instead of increases of \$.47 initially and \$.20 a year later.

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for Preservation Purposes

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THE WHITE HOUSE
WASHINGTON

July 8, 1977

Secretary Marshall -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Stu Eizenstat
Jack Watson
Joe Aragon
Bob Lipshutz

Re: Temporary Foreign Workers

U. S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

July 8, 1977

THE PRESIDENT HAS SEEN.

To Ray - I want strict enforcement of law & rules. Be sure basic rules are reasonable. Pres'd case was un'gu' you handle cases. I'll need me

MEMORANDUM FOR THE PRESIDENT

FROM: Ray Marshall

SUBJ: Temporary Foreign Workers

cc Stu

The United States has traditionally allowed some aliens to enter and work legally in this country. In recent years, these workers have entered with either H-1 visas for aliens of outstanding merit or ability (e.g., athletes, artists) or with H-2 visas for other temporary (mostly agricultural) workers. In 1976 approximately 10,000 H-1 and 15,200 H-2 visas were issued. The Department of Labor has no statutory authority over the admission of aliens but under regulations of the Immigration and Nationalization Service (INS) advises whether the admission of H-2 workers will have an adverse affect on domestic employment opportunities. Normally this recommendation has determined whether or not the alien will be admitted.

The conditions under which the Department of Labor will certify the admission of H-2 workers are also set forth in regulations. The regulations require, among other things, that the employer notify the United States Employment Service 60 days in advance of the date and length of time the workers will be needed, that acceptable housing be available for the workers and their families, that the employers agree to pay the workers a wage rate that will not have an adverse affect on related labor markets and, most importantly, that domestic workers are not available to do the work. The regulations also state that the alien may enter the country only for a specific job and must leave when the job is completed.

Strict application of these regulations has been supported by employee-oriented groups such as farmworker organizations and the AFL-CIO and has resulted in a twenty percent reduction since 1973 in the number of H-2 workers admitted per year and a corresponding increase in the employment opportunities available to domestic workers. These trends, however, have not been popular with the agricultural interests who have in the past employed temporary alien workers. The growers on balance prefer temporary alien workers because they consider them to be harder working and more reliable employees.

While these views are to some extent valid it must be noted that the good work habits of temporary alien workers are determined in part by the fact that they are mostly single prime-working age males from countries where economic standards are far below those in the U.S. It is not fair to let these individuals compete against domestic workers with families who have the right to be protected by our country's system of fair labor standards.

Grower resistance to using domestic workers has been most prominently manifested by resistance to complying with the regulations. For example, the growers may complain that the 60 day period for work orders is too long, that the housing regulations are too strict or that the U.S. Employment Service bureaucracy is too cumbersome to deal with. Farmworker organizations on the other hand, often feel that the laws are not frequently enforced. Recognizing that some of these complaints on both sides may be legitimate, the Department of Labor has just completed a series of six regional hearings aimed at streamlining the regulations. Additional comments will be taken through the end of this month and the Department plans to issue a new set of regulations that will respond to legitimate employer and employee interests early this fall.

The Administration may periodically receive requests from growers and their political representatives to suspend the H-2 certification process and allow temporary alien workers to enter the country on an "emergency" basis. These "emergencies" are likely to arise because either: (a) the growers have not taken the certification process seriously and, for example, have failed to provide a 60 day period for their order to be filled. As a result there may not be sufficient time to either obtain domestic workers or to certify alien workers before the crops begin to deteriorate; or (b) increased enforcement by INS may result in a cutting off of traditional supplies of undocumented aliens (for example, the Presidio, Texas case). If this occurs close to harvest time the employers again may not have time to either obtain domestic workers or certify alien workers.

The only way to provide workers in these instances is to suspend the certification process and ask the Commissioner of INS to admit the workers without a Labor Department recommendation. It may be possible, however, to avoid most of these "emergencies" by impressing on the growers that temporary alien workers will be certified only after the certification regulations have been followed and that a sudden reduction in the availability of undocumented aliens will not be considered sufficient reason to provide temporary alien workers. If the growers seriously face these prospects the Labor Department will either find them domestic workers, or, if that is not possible, recommend the temporary importation of alien workers. Additionally, a tough policy such as this would have the beneficial effect of discouraging the employment of undocumented aliens because employers who used them would have to run the risk of losing their work force at critical times.

3--The President, Temporary Foreign Workers, 7/8/77

Because of the Presidio case it is likely that a number of growers will make requests for "emergency" importation of alien workers in the near future. Some of the petitions may come directly to the White House. A decision will have to be made on who will handle these matters. Should cases like this be handled by the White House staff or should they be referred back to the Labor Department for action?

By Lab

THE WHITE HOUSE
WASHINGTON

July 8, 1977

Stu Eizenstat
Hamilton Jordan
Jack Watson

The attached was returned in
the President's outbox. It is
forwarded to you for your
information.

Rick Hutcheson

Re: Preventing & Investigating
Fraud & Abuse in Employment
and Training Programs

U. S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

"ACTION"

5th - info
C

July 8, 1977

THE PRESIDENT HAS SEEN.

MEMORANDUM TO THE PRESIDENT

FROM: RAY MARSHALL

SUBJECT: PREVENTING AND INVESTIGATING FRAUD AND ABUSE
IN EMPLOYMENT AND TRAINING PROGRAMS

The recent story in the Chicago Tribune on the possible misuse of CETA funds by the City of Chicago brought to your attention a problem that may exist in other large central cities and which I have taken steps to remedy. As I pointed out in my memo on the Chicago situation, the CETA law and regulations clearly prohibit such program abuse. It appears that in the past, neither city governments nor the Department of Labor have regularly and systematically enforced these provisions or else have been hesitant to apply tough sanctions. As a result, several cities have exercised wide and potentially unlawful discretion in the use of CETA funds.

The enforcement policy of the Department of Labor has now changed. First, I intend to establish a permanent special review and investigations function within my office. While this organizational change is being implemented, I have established a special review task force that will report directly to me and be responsible for investigating alleged abuses in all programs of the Department. It will be directed by my Deputy Solicitor who has extensive investigative and trial experience. Although at first this task force will concentrate on current allegations of abuse, it will also begin to develop a longer term investigations and compliance strategy to prevent abuse.

As I proceed with this plan, you should be aware of three other issues. First, in some cases proving allegations of program abuse is difficult. Consequently, civil or criminal sanctions cannot be applied successfully. However, I expect that my new approach to program abuse will signal to CETA prime sponsors that we will enforce the law. Second, where we find violations of the law, I intend to use my authority to seek a resitution of improperly used funds. This action

will cause concern among the affected Mayors, Governors and Congressmen. Third, in cases of potential criminal liability, I will refer the matter to the Attorney General. In the past, the FBI has not always followed up on these matters and I will work with the Attorney General to change the situation.

To bring you up to date on the Chicago situation, I have attached a one-page summary. The Attorney General has recently rendered a legal opinion on the matter and it restates the position outlined in my earlier memo to you. I have also attached a one-page summary of an investigation we are now undertaking in Gary, Indiana that may directly involve Mayor Hatcher. Hamilton Jordan and Jack Watson are aware of the problem but I think that you should also have this information. This morning I was informed that Governor Finch of Mississippi may have been using CETA and other Federal funds for political activities. We will proceed with an investigation and report to you on the matter.

These recent allegations suggest that Federal law enforcement effecting the use of Federal funds has not been adequate. I recommend you raise this issue at the Cabinet meeting and consider discussing it with the Mayors and Governors.

Attachments

CHICAGO, ILLINOISIssues

- ° Chicago Tribune article on June 26, 1977 alleged:
 - Comprehensive Employment and Training Act (CETA) funds were used to rehire laid-off city employees.
 - Individuals needed letters from City Hall or Ward Committeeman to obtain CETA jobs.
 - Former city employees were rehired at higher wages under CETA than previously received.
 - CETA enrollees did not meet income criteria eligibility.
 - Former city employees were placed in CETA jobs several weeks before the Mayor publicly announced additional CETA PSE opportunities.
 - The Illinois Bureau of Employment Security ignored thousands of applicants from the low income, long term unemployed.

Department of Labor Actions

- ° July 8, the Employment and Training Administration's national office assumed responsibility for investigating the Tribune's allegations.
 - 14 staff persons including an attorney, will be in Chicago July 10.
- ° Scope of investigation will include:
 - Review of 400 enrollee records (all hired since January 1, 1977).
 - Interviewing of 122 enrollees who are former city employees.
 - Interviewing a sample (approximately 25% of remaining enrollees).
 - Daily reports of significant findings will be reported to the national office.
 - Additional staff resources will be added as necessary to expeditiously conclude the investigation.

GARY, INDIANAIssues

- ° In 1976, the Justice Department began an exhaustive review of the use of Federal funds Lake County, Indiana.
- ° Allegations involving CETA funds are:
 - Soliciting political contributions from CETA enrollees.
 - Requiring enrollees to work at the polls on election day.
 - Requiring weekend work (politically oriented) without pay.
 - Performing political work during regular work hours.
 - CETA enrollees need "political pull" to get in the program.

Department of Labor Actions

- ° July 8, the Employment and Training Administration's national office will assume responsibility for investigating the allegations.
 - 8 staff persons are on site in Gary, conducting the investigation.
- ° Scope of Investigation will include:
 - Review of FBI files.
 - Review of 650 enrollee records.
 - Interviewing 150-200 enrollees.
 - Daily and weekly reports of significant findings will be reported to the national office.
 - Additional staff resources will be added as necessary to expeditiously conclude the investigation.

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

July 8, 1977

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
SUBJECT: HUD Budget Review Session

In a follow-up memorandum to the HUD Budget Review, OMB answered questions you raised during the Review Session. You asked that Secretary Harris briefly comment on OMB's responses. I have summarized below Pat's comments on the most significant questions.

- 1) How many households are eligible to receive housing subsidies?

HUD Comment: The target population for HUD's housing subsidies is 14.9 million households, not the 35 million or 27.5 million figure used by OMB. OMB's estimates did not take into account those households that meet the income qualifications for housing assistance, but are already living in standard housing.

- 2) How many households are expected to qualify for income supplements under welfare reform?

HUD Comment: HEW informs us that the population eligible to be served by welfare reform is 13.4 million households. The 9.7 million figure in OMB's memorandum is the number of households actually expected to participate in the program.

NOTE: HUD's point is that housing subsidies are as narrowly targeted to the poorest families as are welfare subsidies. However, because the 9.7 million households that would actually receive welfare benefits represent the neediest segment of the 13.4 million eligible households, welfare reform is more carefully targeted to the poorest families.

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- 3) Has HUD's inventory of multifamily properties declined during fiscal year 1977?

HUD Comment: Yes. HUD claims OMB data on multifamily assignments and acquisitions are incorrect. Over the first eight months of this fiscal year, the Department's acquired multifamily inventory (HUD owned properties) declined 2,313 units. At the same time, assignments of mortgages for properties still held by the mortgagor have risen by 5,927 units, not the 9,300 cited in OMB's letter. Eighty-four percent (4,990), of those units assigned were in unsubsidized FHA-insured properties. This increase in assignments reflects overall increases in operating costs, taxes and utilities.

OMB has taken the lead in developing an analysis of the relationship between housing subsidies and welfare reform which will be submitted to you by July 20.

7/8/77 7/7/77

THE WHITE HOUSE
WASHINGTON

MR. PRES.

THESE ARE NOTES

FOR YOUR 1:30
INTERVIEW W/ ARTHUR
BAVSTON OF THE A.P.

JLP

THE PRESIDENT WAS SEEN.

THE WHITE HOUSE
WASHINGTON

July 8, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Jody Powell

The main potential benefit from your Gavshon interview is probably rhetorical rather than substantive. Gavshon has done a lot of research, what he needs is some almost inspirational quotes from you on the importance of the effort. I suggest something like the following, which also ties in with one of our campaign themes:

"This is going to be a very difficult struggle. The prospects are much better now than even a few months ago, but ~~then~~ we certainly cannot underestimate the problems still to be faced.

"But it is a struggle that we cannot afford to duck. The alternative is literally dozens of nations with nuclear weapons -- and a tremendous increase in the chances of nuclear war -- perhaps even nuclear weapons in the hands of terrorist groups.

"If we do not act or if we fail, the prospects even in our own lifetime are horrifying.

"It is already late, the task is more difficult now because this, like so many other problems, was ignored in the past. But I am convinced that we cannot afford to ignore it any longer.

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1. "Mr. President, you have been working toward a world 'Alliance for Survival' against the perils of nuclear war and the spread of nuclear weapons. Many governments share your aims but not all your solutions. How, then, is your project faring?"

There have been many encouraging events in the past few months:

- Real progress toward supplier agreement on requiring full scope safeguards for all nuclear exports.
- Positive response by most nations to our proposed International Nuclear Fuel Cycle Evaluation Program (INFCEP). The experts group set in motion at the Summit meeting has already met and drafted terms of reference for the study.
- Australia, which has one of the world's largest unexploited reserves of uranium, has just recently announced a strong new policy which in some respects is even tighter than our own. For example, they will only export to signers of the Non-Proliferation Treaty. Because access to uranium in the future is of such great concern to most countries, the Australian policy is of major importance to the eventual success of our proliferation policy.

All in all, I would say that ^{our non-}~~my~~ proliferation efforts have met with success beyond my own expectations in the first few months.

2. "Any world regime designed to make the atom the servant, not the master, of man suggests some system of internationalizing the nuclear industry. This could extend from mining uranium ore to managing technology, fuel supplies, temporary and permanent facilities for storing spent fuel. Are you, in fact, working toward that goal? Are all other weapons states cooperating actively?"

Yes, we are working towards internationalizing these activities on many different fronts:

- Strengthening the IAEA.
 - Analyzing various proposals for multinational fuel supply institutions.
 - Cooperative research and development of better nuclear fuel cycles (less proliferation risk) through the INFCEP.
 - Other weapons states have been cooperative to a greater or lesser degree -- the Soviets very much so.
3. "In this context have you foreclosed possibilities of being able to pressure West Germany and France to modify their arrangements to supply Brazil and Pakistan with sophisticated equipment for reprocessing spent nuclear fuel or for enriching uranium?"

No.

- I have not foreclosed this possibility. We still have many years before sensitive facilities will actually be built. The US will continue to try to find mutually acceptable resolutions to this problem.
- I do think that one significant accomplishment that can already be credited to the new US policy is that even if these sales were to go through, they will clearly be the last ones of their kind.

4. "On a personal note, your training as a nuclear engineer has enabled you more than most world leaders to perceive that the military technologists have outstripped the political scientists in developing and controlling nuclear weaponry. Just when did you recognize the dangers of the nuclear arms race? How and when did you come to perceive the problems and their possible solutions? Who influenced you most?"

Personal

5. "Scientists here and abroad contest the data-base on which US uranium reserves and resources are estimated and they predict a uranium shortage in time will force this country to turn to fast breeders fed by plutonium. Isn't this why countries like West Germany, Japan, France, Britain, Brazil among others are skeptical of your new policy? As a means of reassuring them do you think there would be merit in evolving some sort of continuing market-sharing arrangements among the main supplier-countries?"

The adequacy of uranium supply in the future will rest on two separate grounds: (1) nuclear energy demand, and (2) actual uranium supply.

- Ever since nuclear energy was first introduced, estimates of future demand have turned out to be greatly inflated. One of the major goals of the INFCEP therefore is to reach agreed realistic projections of what future demand is likely to be.
- Another study will focus on gathering much better geological data on how much uranium there really is in the ground worldwide. We don't know enough about that now.
- Another effort will focus on analyzing and developing different kinds of multinational arrangements and institutions to guarantee access to nuclear fuel at a reasonable price. Market-sharing arrangements of various kinds might be one of those.
- When all these are completed, I believe it will be clear that there is enough uranium.

6. "You have suggested the cause of non-proliferation would be advanced if the superpowers fulfil their treaty obligation to cut their nuclear arsenals. Yet even while SALT 11 goes on both the US and Soviets have been hinting that even bigger and better missiles, warheads and bombers are being developed and deployed. Are these signals to be taken as bargaining counters, or warnings, or evidence that the SALT negotiations are failing in everything but some procedural matters? Or is some gigantic political-strategic poker game under way?"

The US is making constructive efforts to restrain arms race:

- US comprehensive SALT proposal in March calling for halt to ICBM modernization and significant reductions.
- Continued US and Soviet efforts to conclude SALT Two agreement.
- B-1 decision.
- Decision to halt Minuteman III production.

CBT

tough problem, requires mutual US-Soviet commitment. US taking cautious approach to new weapons developments:

- No decision on M-X procurement for several years -- hope that SALT can eliminate the requirement.
- Will deploy some ALCMs but with restraint as we observe Soviet air defense improvements; wouldn't need any ALCMs if Soviet air defenses remain as they are today.

7. "Alongside Salt 11 negotiations, a ban on all underground nuclear tests would stop the firing and refinement of new warheads. To slow down weapon-making still more would you also favor a verifiable deal with the Russians to cut off the production of fissile materials for military purposes?"

Soviets currently have much more weapon grade fissile material than US.

- Would have relatively little impact on strategic arms race.
- The impact of a freeze on US would be much greater because of current inventory unbalance.

8. "Finally, Mr. President, have you seen an official account of what happened to that uranium shipment which vanished somewhere in the Mediterranean in 1968? If so, can you tell me where it went and what the implications are for ever-tighter safeguards in all sectors of the nuclear trade?"

-- The official investigation of this event was carried out by the European Community (EC). The investigation was closed in 1970 without any result. The US was kept fully informed throughout.

- Though IAEA and EURATOM safeguards were followed, this event demonstrates how difficult it is to adequately safeguard nuclear materials, and therefore how important it is to reduce as much as possible, the amount of weapons-useable nuclear material that is transported around the world.

THE WHITE HOUSE
WASHINGTON

July 8, 1977

Jack Watson -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: Security Violations

THE WHITE HOUSE
WASHINGTON

Watson

<u>date</u>	<u>Person</u>	<u>Documents</u>	<u>Location</u>
6/10	Kirschenbaum	Sec/conf	desk drawer
6/12	Frank	Sec	desk drawer
6/12	"	Conf	chair
6/16	Gilson	Sec	desk drawer
6/19	Watson	Sec	desk

Jack. Please prevent
these security violations
in the future -

J. C.

THE WHITE HOUSE

WASHINGTON

July 8, 1977

The Vice President
Secretary Califano
Stu Eizenstat
Frank Moore
Jack Watson
Bert Lance

Re: HEW Proposal on Foster Care,
Adoption and Child Welfare Services

The attached was returned in the President's
outbox and is forwarded to you for your infor-
mation and appropriate action.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

July 7, 1977

THE PRESIDENT HAS SEEN.

MEMORANDUM TO: THE PRESIDENT

FROM: STU EIZENSTAT *Stu*
BERT CARP
FRANK RAINES
JIM PARHAM
GAIL HARRISON

SUBJECT: HEW Proposal on Foster Care,
Adoption and Child Welfare
Services

Pursuant to his discussion with you, the Vice President, and Bert Lance at the HEW spring budget review, Secretary Califano has sent you a memorandum. He proposes a legislative initiative concerning federally supported foster care, adoption of hard to place children, and services to help keep children in the home or assist in their return. Secretary Califano is scheduled to testify on related legislation, already passed by the House, on Tuesday, July 12 before the Senate Finance Committee.

Background

HEW makes this proposal for two reasons: (1) to reform the current system of foster care and child welfare services which is not working well for the children involved; and (2) to provide an alternative to a less desirable congressional initiative which has already passed the House and is part of a bill which would increase federal welfare costs \$400 to \$600 million above the Administration budget for 1978.

HEW notes that in 1976 there were 350,000 children in foster care in this country. Eighty percent of these children are placed in foster family homes and 20% are in institutions. Foster care is intended to be temporary but 50-85% of the children in care will remain somewhere in the system until they reach maturity.

As part of the AFDC program the federal government last year supported 117,000 children in foster care at a cost of \$170.9 million. AFDC-FC is an open-ended program which is expected to grow significantly in the future. Title IVB of the Social Security Act provides for a \$56 million program for child welfare services

*Stu
Let V.P.
proceed for
me - J*

which are intended to help keep families together. The states, however, used 88% of these funds for foster care maintenance. Very little is currently being done to restore children to their families or make them available for adoption.

Some of these children can be made available for adoption through a concentrated effort to clear up their legal status, as Jim Parham mentioned to you. Most of them are considered hard to place because they are older, handicapped, sick, from a minority group or have brothers and sisters. These children can be adopted if some assistance can be provided to the adopting family to meet the extra expenses.

The House has passed H.R. 7200 which contains provisions to alter the current foster care and child welfare services programs. The bill provides detailed directions to the states on the operation of the programs, makes federal payments available for adoption assistance, and converts the \$56 million Title IVB program into a \$265 million entitlement program in 1978. The Senate Human Resources Committee has reported S. 961 by Senator Cranston dealing only with adoption subsidies. The Senate Finance Committee is beginning consideration of H.R. 7200.

HEW believes that its proposal is superior to H.R. 7200 which seems likely to pass. The HEW proposal is less intrusive in state operation of the programs, provides for a greater focus on preventive services, and would cost far less over the next several years. It is their hope to redirect the congressional debate by presenting this alternative proposal.

The Proposal

The HEW proposal has many provisions due to the complexity of this area. It has, however, four major features:

- ° Remove the incentive to rely on foster care -- The AFDC foster care program provides open-ended funding for foster care maintenance. This, combined with the use of Title IVB funds for foster care, puts the federal government in the position of implicitly encouraging the use of foster care. This could become very costly in the future. The HEW proposal would begin to put a cap on AFDC foster care in FY 1980 permitting modest growth over the next five years. HEW would also prohibit the use of any child welfare services money for foster care maintenance above the current Title IVB appropriation of \$56 million.

- Assist in the adoption of hard to place children --
The largest barrier to the adoption of hard to place children is apparently the medical expenses that many of them require. Under AFDC foster care, the children currently qualify for medicaid. HEW proposes to permit the children to continue their medicaid eligibility after adoption. This should permit the adoption of many children without increasing federal cost beyond what we are already obligated to pay.

Many families who would be willing to adopt hard to place children cannot do so because they do not have sufficient income to support the child. HEW proposes to make these persons eligible for adoption assistance payments based on need. These payments would substitute for current foster care maintenance payments which should not increase costs, and might yield net savings.

- Improve the foster care system -- The current system of foster care is not well managed. HEW proposes to use 30% of the additional child welfare services funds to enable states to improve the operation of the foster care system. This money would be used to inventory the current caseload, devise individual case plans for children, provide services needed to make children eligible for adoption, and develop a case review system, with due process safeguards, to insure that the states review the status of children in foster care on a periodic basis.
- Improve services to keep families together --
Once a state had improved the management of its foster care system it would qualify to receive its full entitlement to be used to provide child welfare services. These services are intended to help keep families together rather than removing the child, and to reunite families after a child has been removed.

Analysis

The HEW proposal was developed in close consultation with OMB, the Vice President's office, Jim Parham and the Domestic Policy Staff. It represents a pragmatic approach to restructuring the foster care and child welfare services programs. The most important features of the proposal -- medicaid continuation and adoption assistance payments -- merely redirect current expenditures and should not increase costs appreciably. The child welfare services provision direct the use of those funds in the manner which HEW believes to be the most effective.

The HEW approach reduces the additional cost in FY 1978 to a maximum of \$63 million from the \$209 million in H.R. 7200. It is estimated that only \$45 million of the available \$63 million would actually be spent. It is not expected that the states would be able to spend the full \$209 million entitlement until FY 1980-81.

The HEW concentration on redirecting current expenditures makes it possible for the federal government to set an example with its foster care program and encourage the states to emulate this approach with their state funded foster care programs.

It is not certain that H.R. 7200 can be stopped. It does appear, however, that the Finance Committee is anxious to have the Administration present its views on its own proposal if H.R. 7200 is unacceptable. The alternative to submitting an Administration proposal is to oppose H.R. 7200 and stand prepared to veto the bill if enacted. This would prevent any improvements in these programs in the near future.

OMB Position

Bert Lance has agreed with these proposals, but suggests the following modifications:

- o Limit the extension of Medicaid eligibility to those conditions which make the child hard to place. HEW observes that a very large percentage of adoptions are by foster parents and that implementing the OMB change would weaken incentives for foster parents to adopt, and complicate administration.
- o Require states to contribute a 25% match for the new child welfare funds, as under Title XX Social Services.

- o Remove the 1% setaside (up to \$2 million) which HEW has proposed for technical assistance and evaluation, and ask HEW to request funds for this purpose through the normal budget process.

Recommendation

We recommend you approve the HEW proposal with OMB's modifications. The Vice President concurs.

Decision

- Approve HEW plan
- Approve with OMB modifications
- Limit extension of Medicaid eligibility (recommended)
- Require 25% state match (recommended)
- Remove setaside for technical assistance and evaluation (recommended)

Announcement

Secretary Califano is scheduled to testify on the House-passed bill next Tuesday. The Vice President, in a separate memorandum (attached), outlines a proposal for a press briefing Tuesday at 9:30 a.m., with which we agree.

J.C.



THE VICE PRESIDENT
WASHINGTON

July 7, 1977

*Fritz.
You handle
this for
me -
J.C.*

MEMORANDUM FOR: THE PRESIDENT
FROM: THE VICE PRESIDENT *wj*
SUBJECT: FOSTER CARE/CHILD WELFARE PROPOSAL

I think the attached proposal on foster care, adoptions and child welfare services is a thoughtful, well constructed initiative. It helps to reinforce and underscore your strong pro-family position.

Should you decide to proceed with this initiative, I would like to recommend a press conference Tuesday morning, involving you or me, as well as Secretary Califano, and appropriate leaders from the Congress and outside child welfare advocates. While I have not spoken with her about it, Mrs. Carter might want to take part. As you will recall, Jim Parham has good information about how this kind of federal program could help in Georgia, enabling the State to place in stable families a sizeable number of children who would otherwise be forced to remain in costly institutional care. This information could be used to construct a good statement for Mrs. Carter, drawing upon the Georgia experience to show how the current federal system provides a disincentive for adoption and why reform is so badly needed.

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THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

JUL 7 1977

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MEMORANDUM FOR THE PRESIDENT

FROM : Joe Califano

SUBJECT : Legislative Proposal on Foster Care, Adoption, and Child Welfare Services

This memorandum follows up on our June 8 meeting on the FY 79 HEW Budget, in which you and the Vice President discussed the need for an Administration initiative in the child welfare area that would both:

- o address the concerns you expressed during the campaign about public policies which weaken families, specifically the inadequacies of the present foster care, adoption, and child welfare systems; and
- o resist the fiscal excesses of H.R. 7200. (That bill, which has already passed the House, includes changes to AFDC, SSI, and other Federal programs which would exceed your budget by \$400 - 600 million annually).

This memorandum advances a legislative proposal designed to:

- o ensure that children do not become "lost" in the foster care system;
- o encourage adoption of hard-to-place children; prevent the unnecessary removal of children from their families and encourage reunification of viable families; and
- o accomplish these objectives in a fiscally responsible manner.

This proposal would cost approximately \$63 million in new money for FY 78, somewhat more in FY 79 and FY 80, and ultimately no more than \$209.5 million a year (sometime in the mid-1980's). These figures are far below the potential annual cost of the child welfare provisions of H.R. 7200.

I. Background on Foster Care, Adoption, and Child Welfare Services

The AFDC program now contributes to the support of some 117,000 children in state-run foster care "systems." These children:

- o come from families experiencing severe problems, such as alcohol or drug problems; and/or
- o are hard-to-place for adoption (e.g., due to handicap, age, race or ethnicity, sibling group); and/or
- o remain in the foster care "system" for many years, often shuttling from one institution to another.

The state foster care systems:

- o lack basic information and monitoring capacity to assess individual childrens' needs;
- o often do not afford due process protections to children and families involved;
- o tend to discourage use of the least costly and most beneficial forms of care; and
- o provide inadequate services for restoring these children to their families or placing them in more permanent and secure settings.

The Federal programs -- AFDC Foster Care and Title IV-B child welfare services -- reinforce these patterns by:

- o stressing institutional maintenance payments (room and board) rather than services designed to prevent family break-ups or restore children to their families;
- o encouraging foster care placements rather than adoptions; and
- o providing no incentives to encourage reforms designed to protect children and families caught up in the foster care system.

~~Tab A provides a factual synopsis of the types of children in foster care and the quality of foster care. Tab B summarizes in more detail the present Federal role in foster care.~~

II. Our Proposal

We have prepared this proposal in close consultation with the staffs of the Vice President, OMB and the Domestic Council. Our objectives are to achieve (1) appropriate placement of, and services to, children, (2) fiscal control over Federal child welfare expenditures, and (3) flexibility for the states in program administration.

Foster Care and Adoption Maintenance

This new program, separate from AFDC, would have the following major elements:

- o Adoption payments would be available to eligible families
 - children must be deemed "hard-to-place"
 - adopting family must meet a simple income test to qualify for the payment
 - eligibility continues until child reaches majority or the adopting family fails to meet the income test, whichever comes first.
 - the amount of the payment would be limited by regulation (probably to the existing home foster care maintenance payment)
- o Foster care maintenance payments would continue to be available for AFDC eligible children
 - differentials in Federal matching rates would be designed to discourage placements in large institutions
 - for first time, payments to public institutions, if they are small, would be permitted
 - the requirement of court review prior to involuntary placements would be continued; emergency and voluntary placements must be followed by court or quasi-judicial review or restoration of child to family within three months after placement
 - due process protections for children, biological parents, and foster parents would be required.
- o Children would carry their Medicaid eligibility with them (except to extent that new family has private insurance which provides the same coverage)

- o The foster care-adoption program would be an entitlement program but would be capped in FY 1980 at 10 percent above the 1979 expenditure level. The cap would increase annually about 10 percent of the previous year's base. After 5 years, the cap would level off. The States could use any unused maintenance allotments for child welfare services under Title IV-B.
- o This part of the program would require little or no new Federal money. It would essentially substitute for the existing open-ended AFDC foster care maintenance payment authority and Medicaid eligibility. It might even save some money by encouraging deinstitutionalization and adoptions, and ultimately, by capping the program.

Child Welfare Services

In addition, we propose to authorize new Federal money -- \$63 million in FY 78 rising to \$209.5 million in the mid-1980's -- for the development of State systems for tracking, case review, due process safeguards, and preventive and restorative services for children at risk of foster care.

The major elements of the proposal are:

- o The existing base of \$56.5 million in Title IV-B funds (the FY 77 appropriation), but no more, could be spent on foster care maintenance.
- o Title IV-B would be converted to a capped entitlement program providing a maximum of \$209.5 million a year in new money (above the present \$56.5 million base) to be made available to the States in two phased, "flexible grants". The conditions of these grants are described at Tab C.
 - . 30 percent of the new money (or about \$63 million) would be earmarked and available for designing and implementing State tracking and information systems, individual case review systems, the provision of services designed to promote adoption, and due process procedures for biological parents, children and foster parents. Requirements would be defined in terms of general objectives (e.g., "a tracking system from which the status of every child in out-of-home care may be readily identified"), rather than detailed system specifications. After those reforms are in place, the State may use the 30% for systems maintenance and Title IV-B child welfare services.

- . The remaining 70 percent of the \$209.5 million in new money (or about \$147 million) would be made available only after the requirements of the first "flexible grant" are met. This money could be used for child welfare services under existing Title IV-B, the only restriction being that at least 40 percent of the State's share of the \$209.5 million in new money must be used for certain defined services to prevent family break-up or reunify families.
 - . There would be a 1 percent set aside for HEW evaluation and technical assistance.
- o In order to receive the new money, the States must maintain their current levels of Title IV-B expenditures for child welfare services.

In sum, our proposal is designed to accomplish the following central objectives in the following ways:

- o Appropriate placement of children by -- making Federal money available for adoptions; increasing Federal funding for preventive and reunification services; encouraging deinstitutionalization of children in foster care; and encouraging specific procedural reforms, to ensure that children and parents do not become lost in the state systems.
- o Fiscal control over Federal child welfare expenditures by -- capping the foster care/adoption maintenance program; creating incentives for lower cost placements; and assuring that new Federal funds for services will be well spent in reformed state systems.
- o Flexibility for the states in program administration by -- giving States positive incentives to adopt system changes defined in a goal-oriented, rather than highly specific, way; allowing reformed state systems to allocate the new Federal Title IV-B money for services largely as they wish; and allowing placement decisions and procedures to remain in the state's domain.

III. Recent Congressional Activity in This Area

There are three bills in Congress addressing these issues:

- o H.R. 7200 would, among other things, increase Title IV-B funding by the full \$209.5 million in FY 78 and every year thereafter. It would also require a number of very specific procedures and systems changes as a condition of the funding.

- o H.R. 6500 (sponsored by George Miller of California) would impose on the states the most comprehensive and detailed requirements for foster care system changes. Some of its provisions have been incorporated in H.R. 7200.
- o S. 961 (the Cranston bill), which has been reported by the Senate Human Resources Committee, would authorize \$20 million for subsidized adoptions for any hard-to-place child without regard to the income of the adopting family. It would also create a national adoption information exchange and a Center on Adoptions within HEW.

H.R. 7200 has already passed the House. It appears likely that the Senate will adopt a bill providing for (1) the kinds of protective provisions contained in H.R. 7200 and the Miller bill (2) the conversion of Title IV-B into an entitlement program for child welfare services funded with \$209.5 million in new money, and (3) Federal payments for adoption.

- o Two main issues might separate the Senate and House:
 - whether AFDC-Foster Care should be capped or remain open-ended. (The Senate Finance Committee will almost certainly insist on a cap, and we agree).
 - whether requirements for protections and systems reforms should be imposed on the states, and how specific those requirements should be. (The House has insisted on very specific protections. The Senate Finance Committee will almost certainly accord states more flexibility, and we agree.)
- o Both the House and Senate, however, seem determined to increase Title IV-B with \$209.5 million of new money to be fully available in FY 78.

Recommendation

I recommend that you approve our proposal. If so, I plan to unveil it as the Carter Administration's child welfare initiative in testimony on H.R. 7200 on June 12 before the Subcommittee on Public Assistance of the Senate Finance Committee.


Joseph A. Califano, Jr.

~~Attachments~~

THE WHITE HOUSE
WASHINGTON

July 8, 1977

Tim Kraft -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: Annual Meeting of the US/USSR
Joint Commission on Scientific &
Technical Cooperation

THE WHITE HOUSE
WASHINGTON

*T. Kraft
has copy.*

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE
WASHINGTON

*Tim - I'd be
glad to shake hands &
have a photo
J*

July 6, 1977

MEMORANDUM TO THE PRESIDENT
FROM: Frank Press *FP*
SUBJECT: Annual Meeting of the US/USSR Joint Commission on
Scientific and Technical Cooperation

Today's discussions with the Soviet delegation on the senior agreement on scientific and technical cooperation were extremely positive. Both in the formal all-day meeting and in a private one I held with the head of the delegation, Deputy Premier Vladimir Kirillin, the Soviets gave the impression of making a special effort to be cooperative. They responded favorably to our proposals on a number of important issues, which would make for a more equal flow of benefits to the two countries. Kirillin and other members of the group repeatedly stressed the importance of the work under the agreement and their willingness to improve its conduct by personal intervention whenever necessary.

Dr. Kirillin is both the Chairman of the State Committee for Science and Technology and Deputy Chairman of the Council of Ministers. He is a voting member of the Central Committee of the Communist Party of the Soviet Union. Dr. Kirillin and his delegation will leave Washington on Friday afternoon, following a formal signing ceremony that morning.

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THE WHITE HOUSE
WASHINGTON

July 7, 1977

Zbig --

For Your Information.

Rick Hutcheson

7/8

2458M

THE PRESIDENT WAS SEEN.

THE WHITE HOUSE

WASHINGTON

MEETING WITH U.S. COMMISSION ON CIVIL RIGHTS

DATE OF MEETING: Friday, July 8, 1977

TIME OF MEETING: 2:45 p.m.
15 minutes

PLACE OF MEETING: Cabinet Room

FROM: Martha (Bunny) Mitchell

I. PURPOSE: To discuss responsibilities of the Commission and to review the implications of its recent report on federal civil rights enforcement in the EOP.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN:

A. Background: Since 1957, the Commission has served as the research and evaluation arm for federal civil rights efforts. As an independent, bi-partisan agency, it has made numerous recommendations from fact-finding studies that have significantly influenced the course of civil rights activities and legislation. The Commission has no enforcement powers. One of the six-member Commission seats is currently vacant. Both the Chair and Vice-Chair are Republicans.

The Commission recently released a report evaluating the civil rights enforcement efforts in the EOP from 1972 to 1976.

THE MAJOR FINDING: Past failings of federal enforcement efforts are directly related to the lack of Presidential oversight and direction.

THE MAJOR RECOMMENDATION: A cabinet-level White House adviser should guide agencies' efforts, and a Division of Civil Rights should be created within the OMB Director's office. (Jody acknowledged your receipt of report at his briefing on June 14, 1977). The Commission will expire September 30, 1978, unless another statutory extension is granted.

B. The Participants: The President

Commissioners:

Arthur Sherwood Flemming (Chairman)
Louis Nunez (Acting Staff Director)
John Stephen Horn
Frankie Muse Freeman
Manuel Ruiz
Murray Saltzman

Bunny Mitchell

Howard Glickstein (Project Director,
Civil Rights Enforcement
Reorganization Task Force)

C. Press Plan: At beginning of meeting.

III. TALKING POINTS:

1. Your personal commitment to civil rights.
2. Commend Commission for being a valuable critic-monitor of problems/progress in civil rights area for past twenty years; a symbol to many Americans as the one place in government where equal rights receive first priority.
3. Your concern with ineffectiveness, duplication, overlap in federal enforcement efforts led to your forming the civil rights reorganization project.

GOAL: To devise a workable structure so that our civil rights laws can be meaningfully enforced.

Commission is working with your reorganization team; you expect to consider all recommendations for organizational changes in late September.

4. Explore future plans of Commission.

THE PRESIDENT HAS SEEN.

345 PM

THE WHITE HOUSE
WASHINGTON

July 6, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Jack Watson *Jack*

SUBJECT: Meeting with Secretary Bergland and Midwestern Governors
Friday, July 8, 1977 3:45-4:00 p.m. Roosevelt Room

Governor Art Link of North Dakota requested this meeting on behalf of ten Midwestern Governors who wanted a chance to discuss farm-related issues with you and Secretary Bergland.

Bob will meet with them beginning at 3:00 p.m.; you are scheduled to drop by at 3:45 p.m. for fifteen minutes. Governor Link will be the main spokesman for the group, which includes:

Governor Richard Lamm, Colorado ✓
Governor Robert Ray, Iowa ✓
Governor Robert Bennett, Kansas ✓
Governor Rudy Perpich, Minnesota ✓
Governor Thomas Judge, Montana ✓
Governor J. James Exon, Nebraska ✓
Governor Arthur Link, North Dakota ✓
Governor David Boren, Oklahoma ✓
Governor Dolph Briscoe, Texas ✓
Governor Dixy Lee Ray, Washington ✓
Lieutenant Governor William Murphy, Idaho ✓
George Gagnon, Staff Assistant to Governor Link

Bob has detailed briefing materials from the group. The five major topics to be discussed are:

1. Deteriorating economic conditions in rural America;
2. The federal budget for agriculture;
3. Meat imports;
4. Drought report; and
5. Energy as it relates to agriculture

I have suggested that they cover these items with Bob and then use the time with you to report their progress and hear your reactions.

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THE WHITE HOUSE

WASHINGTON

MEETING WITH SECRETARY BERGLAND AND MIDWESTERN GOVERNORS

Friday, July 8, 1977 3:45-4:00 p.m. Roosevelt Room

- I. OPENING: Governor Link
- II. CONCERNS REGARDING DETERIORATING ECONOMIC SITUATION IN RURAL AMERICA
 - A. Discontinuation of policies which encourage dramatic overproduction, allowing huge inventories to severely depress prices;
 - B. Ways to manage agriculture's abundance at home and abroad to eliminate "boom or bust" policy;
 - C. Favorable consideration by House and the President of Senate-passed Bill "Food and Agriculture Act of 1977"; and
 - D. Target prices which at least cover cost of production.
- III. BUDGET
 - A. Budget and manage agriculture as an asset instead of liability;
 - B. Explore that section of federal agriculture budget concerning the listing of loans through Federal Home Administration (paid back with interest) as expense items; and
 - D. Agriculture credit.
- IV. MEAT IMPORTS
 - A. All meat (live, processed, shelled, frozen, fresh) should be included in all import quotas; and
 - B. Import quotas should be tied to price instead of production. When prices are low, allow fewer imports, when prices are high, allow more imports. This will benefit both producer and consumer.
- V. DROUGHT SITUATION
- VI. ENERGY AS RELATES TO AGRICULTURAL USAGE
- VII. OTHER
 - A. Grain inspection service; seed; disease in cattle; Timothy hay exports to Japan; grain warehousing, proposed pollution standards for grain elevators.

2:00 p.m.

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE
WASHINGTON

July 8, 1977

MEETING WITH VLADIMIR KIRILLIN
Friday, July 8, 1977
2:00 p.m. (5 minutes)
The Oval Office

From: Frank Press

I. PURPOSE

To Congratulate Chairman Kirillin on renewal of US/USSR Science and Technology Agreement.

Dr. Kirillin and his delegation have come to the US to renew the US/USSR senior agreement on scientific and technical cooperation. Dr. Kirillin and Dr. Press formally signed a renewal of the agreement for an additional five years, this morning at the Department of State.

II. BACKGROUND, PARTICIPANTS, & PRESS PLAN

- A. Background: The US/USSR Joint Commission on Cooperation in Science and Technology includes such programs as electrometallurgy, physics, computer applications, forestry, and water resources. Other US/USSR Technical Agreements include Space, Energy, World Oceans Studies, Agriculture, and Environmental Protection.

Dr. Kirillin is a thermophysicist by training and an energy expert. During the 1960's he worked on the development of magnetohydrodynamic generators for the direct conversion of thermal energy into electrical energy. Perhaps the most important segment of his career was spent formulating national educational policy directives as chief of the Department for Science, Schools, and Higher Educational Institutions of the Communist Party of the Soviet Union.

- B. Participants: Chairman Kirillin (Kirillin)
Ambassador Dobrynin (possibly)
Mr. Dimitry Sarechnak, Interpreter
Frank Press
- C. Press Plan: Photographic coverage.

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III. TALKING POINTS

- A. Successful renewal of Science and Technology Agreement is an important step in fostering US/USSR cooperation. Hopefully, we will be able to make similar progress in other bilateral areas.

- B. Progress in science and technology between our two nations -- which lead the world in almost all areas of science and technology -- will help alleviate global problems in areas such as energy, food production, and natural resources. Working together, our two countries can achieve these goals more rapidly and less expensively.



THE WHITE HOUSE

WASHINGTON

July 8, 1977

To Curtis Wilkie

I have been informed that your managerial talents have finally been recognized, and that you will be assuming the role of acting bureau chief here, after a summer of grooming in Boston.

We're sorry you will be missing much of the summer months here, but pleased that the Red Sox will be in such good hands.

From my experience, I would guess that running a baseball team is second only to football in preparation for managing journalists.

Jimmy

Mr. Curtis Wilkie
The Boston Globe
135 Morrissey Boulevard
Boston, Massachusetts 02107

*p.s. I particularly don't
want you to lose the benefits
of last summer's grooming in
Plains.*